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**POLITICO-ECONOMIC DEVELOPMENT
OF TURKEY AND THE TRANSFORMATION
OF POLITICAL ISLAM**

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Abstract

This paper examines Turkey's economic transition highlighting two objectives: achieving a strong growth performance in an open economy framework and fostering democracy. These two aims have shaped the politico-economic development of Turkey since 1950. The paper focuses on the historical roots of government success in handling the varying demands of diverse economic players; notably small and large economic decision makers.

ملخص

تدرس هذه الورقة انتقال تركيا وتسلط الضوء على هدفين وهما تحقيق أداء النمو القوي في إطار اقتصاد مفتوح وتعزيز الديمقراطية وهما الهدفين الذان شكلا التنمية السياسية والاقتصادية لتركيا منذ عام 1950. كان التركيز في هذه الورقة على الجذور التاريخية للنجاح الحكومة في التعامل مع مطالب متنوعة متفاوتة من صناعات القرار الاقتصادي؛ صغيرة وكبيرة ولا سيما صناعات القرار الاقتصادي.

1. Introduction

Following its spectacular victory in the November 2002 elections, *Adalet ve Kalkınma Partisi* (the Justice and Development Party, AKP) gained a strong majority in the parliament and formed a single-party government. This spectacular development raised two types of questions. The first was related to the compatibility of such an Islamic party and its government with secularism, one of the main pillars of the Turkish political system. The second type is related to AKP's ability to deal with the rather complex socio-economic problems of Turkey in a globalized democratic environment. AKP governments, therefore, faced twin problems of gaining credibility and proving their competence. AKP's success in 2007 and 2011 elections clearly indicate that the AKP not only secured its first party position but even increased its electoral base. In light of these results, it can safely be argued that AKP satisfied the necessary conditions for its credibility and competence. However, to judge efficiency, one needs to evaluate AKP's track record under adverse environmental conditions. The 2008 crisis offers such an opportunity. During this period AKPs performance was mixed; fairly problematic in the political arena, but reasonably successful in the economic spheres.

While there is no doubt that the ongoing AKP experiment is one of the most important episodes of Turkish political history, it is hardly an unexpected event. On the contrary, Turkey's politico-economic development since 1946 in a multi-party system envisages such an outcome. In this paper an attempt is made to discuss this claim by examining the development of the Turkish economy and its political system during the post Second World War (WWII) era. The main hypothesis of the paper is that last decade's astonishing developments in Turkey on the political and economic spheres were the results of an evolutionary process, rather than a quantum jump. During this period, not only did the structure of Turkish economy and society change but a major transformation also took place in the political arena. Public political perceptions changed considerably and one of the important results of this process was the change in how political Islam¹ was viewed as well as its evaluation.

Most observers of Turkey's politico-economic development agree that between 1946 and 2012 Turkey evolved from a backward, closed agrarian economy into an open economy with a significant industrial base capable of exporting a diverse set of products to a large number countries. Simultaneously, the Turkish political system was transformed from a single party regime into a functioning multi-party "electoral democracy"². Neither process was easy or smooth. In fact Turkey encountered several economic crises (mostly home-made but some imported) and four military interventions that led to undemocratic changes of government.³ Nevertheless, Turkey was able to return to its path, which can be broadly defined as "democratization" plus "economic development with opening up." Turkey's records in both democratization and development are neither exceptional nor exhibit stable trajectories.

¹ For a comprehensive survey of political Islam in late XIX. and early XX. centuries in Ottoman Empire, see Karpat (2001). Recent developments in political Islam in Turkey have attracted attention of many researchers both in Turkey and abroad. See, for example, Hale & Özbudun (2009), Tuğal (2009), Turam (2007), Yavuz [(2003), 2006 and (2009)] and references given in these works.

² "Electoral democracy" is one of the terms used to describe "hybrid regimes" that exhibit some characteristics of liberal democracies (such as the recognition of the importance of the elections is determining the political preferences of the people) but may fail to satisfy fully some of its other dimensions (such as political pluralism, equality before the law, civil liberties, human rights and elements of civil society outside the government.) In Özbudun (2011) it is argued that electoral democracy is a suitable concept to describe Turkish political regime. See Morlino (2009) for a more general discussion of hybrid regimes.

³ Between 1950 and 2011, there were four coup d'états launched by the armed forces: 1960, 1971 (coup by memorandum), 1980 and 1997 (post-modern).

However, as will be argued in this paper, history still has considerable information to offer to explain Turkey's performances in both spheres,⁴

The structure of the paper is as follows: In the following section, first a simplified description of the politico-economic evolution is presented. In this highly aggregated framework the "Polity Index" is used to serve as a proxy for political institutions and "per capital GDP growth in real terms" to represent economic development. In examining the paths of these variables not only changes in the trajectories, but also brief but significant shocks (such as military takeovers and economic crisis) are taken into account. In the following subsection a starting point for this process is identified. It is claimed that Turkey made a major shift to multi-party system and market based development strategy during the 1946-50 period which makes this period a strong candidate for a starting point, given the initial conditions. The paper then discusses the 1950-60 "infancy" period of multi-party regime and later the 1960-1979 import substituting industrialization era. The third section is devoted to Turkey's experience in neo-liberalism between 1981 and 1999. In the fourth section the 2001 economic crisis and the comprehensive economic program that made radical changes in the institutional structure is discussed. Since AKP committed itself to the 2001 program, at least the first term of the AKP era can be considered as the program's implementation period. Post 2008 era, on the other hand, exhibits a different picture. Mostly due to external developments such as global economic crisis, political developments in the Middle East, Turkey's political and economic problems both changed and intensified. These developments created a rather unreceptive environment that tests AKPs credibility and competence. In the final section major findings are critically discussed.

2. Politico-Economic Development of Turkey 1950-2010

2.1. Basic framework

A politico-economic state of a society is assumed to be represented by its political institutions and its economic structure (the organization of production, investment and distribution). Politico-economic development, therefore, refers to changes in both.⁵ In order to understand the historical experience of a country one may start with the assumption that these two spheres and their interactions are capable of creating a process that can offer reasonable explanation for the politico-economic evolution. Although the outcome of such a thought experiment can hardly expected to be fully satisfactory, it may still serve as a starting point.

Historical experiences of countries, in general, are subjected to various shocks that affect either political and/or economic spheres. Therefore, one relevant question to ask is whether the politico-economic system in question diverges from the historical trend or not. In the first case, assuming that a two dimensional politico-economic evolution process exists may be justified, but it is not possible to make such an assumption in the second case. Obviously such an approach requires a well-defined and meaningful starting point.

A second issue is concerning the analysis of the effects of a shock. A shock may change the trajectory of the system for good, or its effect may be temporary. For example a shock may reverse the democratization process and the country may end up with a long-term authoritarian regime⁶. On the other hand an external shock may adversely affect the economic performance of the country for only one to two years. Then the economy recovers

⁴ Comparing the performance in these two dimensions with other countries is beyond the scope of this paper. However one can easily give examples of countries that exhibit fared much better in terms of economic (South Korea, Taiwan) and democratic (Greece, Portugal) performances.

⁵ This approach is discussed in Acemoglu, Johnson and Robinson (2005) and in more detail in Acemoglu and Robinson (2006).

⁶ For example, the military coup that overthrew President João [Belchior Marques] Goulart (1919-1976) on March 31, 1964, led to the establishment of an authoritarian regime that survived until March 15, 1985.

and goes back to its past development path.⁷ In order to take all such effects into account one needs to check the following cases⁸:

i) Change the structure of the mechanism that relates to the existing politico-economic state to its evolution.

ii) Change in the contribution of one component of the politico-economic system (political institutions or economic structure) either on its own, or the other component's evolution.

The total effect of a shock on the politico-economic system, therefore, is the sum total of these effects.⁹

In the post WWII period, in Turkey, as was the case in most developing countries, changes in political institutions and economic structure were discussed under the titles of "democratization" and "economic development." It can safely be argued that after Turkey's move into multi-party system, these two concepts were integrated into popular vocabulary of the Turkish public and recognized as unanimously accepted social goals. Even though different definitions of these concepts existed, they still remain as minimum conditions that need to be satisfied for legitimizing any proposal on socio-economic issues.

It is clear that both political institutions and economic structure are multi-dimensional, complex concepts. For the sake of simplicity, the following indices are used as proxies to represent them: In order to give a broad idea concerning Turkey's politico-economic development, the "Polity Index" will be used as a proxy for political institutions and "Per Capita GDP Growth" for the evolution of the economic structure.

2.2 Politico-economic development of turkey- a simple descriptive framework

In this section, using available data, both the present politico-economic state of Turkey and its development will be described,

2.2.1 Political Institutions

Turkey is placed under "hybrid regimes" in the democracy index classification of the Economist Intelligence Unit (EIU). This means Turkey is neither in the category of "full democracies" nor in "flawed democracies"; but it is also not an "autocracy." Turkey, according to the Freedom Index released by Freedom House, is also not classified under "free countries"; it is in the group of "partially free" countries.

Details of EIU's Democracy index offers clues why Turkey exhibits such a "democratic deficit." Table 1 gives Turkey's grades on five main components of EIU Democracy Index for 2008 and 2011.

In the first five rows of the Table 1 grades for each major component of the democracy index is given. The sixth row indicates the overall score. (The maximum possible score is 10, indicating full democracy). Turkey's overall democracy score is 5.69 and it ranks close to the median of the 167 countries in the data set. On the other hand the figures for 2008 and 2011 indicate no visible changes.

⁷ Turkey's experience with the 2008 shock can be considered an example. Turkey was severely affected by the global crisis starting with the last quarter of 2008, but recovered rather quickly in 2010.

⁸ The list given above is adapted from the stability conditions for a dynamic system on a plane by in an article by A.A. Andronov and L.S. Pontryagin in 1937, For a concise discussion of Andronov-Pontryagin theorem see Shinikov et. al. (2001, Ch. 7). In the context of politico-economic systems it may be excessively demanding to expect them to be stable in mathematical sense. However, in democratic societies it is not unrealistic to assume "durability" of the political institutions, Acemoglu & Robinson (2006, p.24). On the other hand, for a moderately developed market economy, unless it faces with an exceptionally severe shock (such as natural disaster or major economic crisis), one can expect its economic structure to exhibit smooth and rather slow changes.

⁹ This approach has the merit of assigning significant weights to short enduring shocks that enable s taking into account of military takeovers that lived short but had radical effects on political institutions and, similarly, for economic shocks that severely disrupt economic activity for a short period of time.

A closer inspection of the components of the democracy index reveals that Turkey is doing fairly well in the first two dimensions, but its scores in the remaining three dimensions, especially for “political participation,” are quite low. These figures indicate that identifying Turkey as an “electoral democracy” is not misleading. They also show that the sources of democratic deficit in Turkey can be traced to factors such as the lack of political participation, underdeveloped state of political culture and the unsatisfactory state of civil liberties.

A more interesting question is to understand what extent the present political state can be considered as an outcome of a process of evolution of political institutions rather than caused by “historical accidents.” As a prelude it may be of some interest to look at how political institutions evolved over time in Turkey. The only data set that offers indicators for the long term evolution of political institutions is “Polity IV Index” of the “Center Of Systemic Peace.”¹⁰ This index offers a measure of democracy (and autocracy) and widely used in quantitative political/economic research.

The main indicator used to identify the status of a country on democracy-autocracy axis is the polity index, which is the difference between the “Institutionalized Democracy” (ID) and “Institutionalized Autocracy” (IA) indices. The latter indices, themselves, also reveal valuable information concerning the nature of the evolution of political institution in time. Therefore, in the following discussion the two components of the Polity Index will also be examined.¹¹

The figures in last column of the Table 2 indicate that Turkey can be considered as slightly better than average of the countries included in the sample. Second the index exhibits some significant variations. ID and IA indexes, in the first and second columns of the Table 2, reveal that while Turkey’s ID index was relatively stable, its IA index was not. The large variations in the latter were, mostly attributable to military interventions that strongly affected the value of the index but only for a short period of time, see Figure1.

As can be seen from FIGURE II.2 the “Polity Index” remained significantly below for six consecutive years between 1954-9. Similarly the Polity Index was well its average for the six years period between 1989 and 1996. Although both periods were terminated by military interventions (1960 and 1997) their outcomes were different. Turkey progressed towards democracy after the 1960 coup d’etat but lost ground in democratization after the 1997 “post modern coup.”

The 1954-9 period was, indeed exceptional in Turkey’s recent history since the government that secured a strong majority in the parliament in the 1954 elections, shifted towards an authoritarian regime. Although this tendency never reached the extent that it did during the 1971 and 1980 military interventions, it surpassed them in terms of duration (six years vis-à-vis two years of military intervention in 1971 and three in 1980). Nevertheless, when these two large shocks are taken into account, the development of Turkish political institutions did not seem to follow a “stable path.” However, especially in post-1998 period political institutions seemed more durable: i.e. they are likely to persist, Acemoglu & Robinson (2006, p.24). Therefore, in this weaker sense, the history of the development of political institutions can be considered as containing information in explaining their present state.

¹⁰ See Marshall, Jagges and Gurr (2011) for a detailed discussion of Polity IV data base.

¹¹ The polity index for Turkey gives the impression that it may be biased in favor of democracy, i.e. the index is more generous to positive developments in political institutions than the negative ones. It should also be pointed out that in calculating this index, the 1960 military intervention is treated differently from the 1971 and 1980 military interventions. Polity IV identifies 1960 as a “transition year” and therefore does not grade it. In contrast, others are evaluated as negative political shocks.

2.2.2. *The Economic Structure*

Turkey is classified under “upper middle income countries” by the World Bank. Although it is not a developed country, its economic structure is still too complex to be represented a single indicator. In the Table 3 some broad macro indicators are presented to give an idea about the present state of the Turkish economy.

For the purpose of this study per capita GDP growth rate (in 1998 prices; calculated by the SPO based on TURKSTAT’s GDP estimates) is used as a proxy for the evolution of the economic structure. In Turkey, per capita GDP in real terms increased 360.8% between 1950 and 2010. The average of the rates of increase in per capita GDP was 2.73%, which is not impressive compared to fast growing East Asian economies, but it is still significant. However the coefficient of variation for the per capita GDP was 1.5 which indicates that growth was far from being a steady process, (See Figure 3).

As can be seen from Figure 3, between 1950 and 2010 the real per capita GDP exhibited sharply decreases (by more than 4%) in six instances. Four of these events took place after 1990, i.e. after the liberalization of the capital (finance) account of the balance of payments. Only two of these events (1999 and 2009) can be connected with the developments in the world economy. The one that took place in 1954 is a joint result of the ending of the Korean War boom and a severe drought that hit the country. Others were related to the developments in domestic economy and economic policies followed.

2.3 *setting the initial conditions (1946-1950)*

The Republic of Turkey was established in 1923. It inherited a war torn economy with extremely weak physical and human capital endowment. Therefore, along with national security, economic development became a number one priority for the country from the very first day. Until the start of WWII the new regime was engaged in establishing its core political and economic institutions. Although the founders expressed strong preferences concerning the nature of the political institutions to be adopted, they showed a much more practical approach for the economic development. Even before the official announcement of the nature of the political regime as a republic on October 29th, 1923, the government invited representatives of all economic interest groups to discuss the economic system of the country. The meeting was held in Izmir (February 17-March 4, 1923). The participants of the conference, besides emphasizing the vital importance of economic development, agreed that the country needs a “mixed economic system,” where private sector activity should be supplemented by the public sector. This concept remained a major cornerstone of politico-economic rhetoric in Turkey until the 1980s, and private and public sectors treated as “complementary” in the economic development process. Nevertheless, the weights attributed to private and public sectors varied considerably among political parties and also changed in time.

A second wave of reforms aimed at introducing radical changes in the political institutions took place between 1946 and 1950. During this period the regime laid the foundations of a transformation to a multi-party system and gave signals of relaxing its own strict secularist stance. The change in the economic policy, on the other hand, was to increase the emphasis on the role of the private sector.

2.3.1. *Establishing the multi-party system*

Turkey was under a single party regime¹² until 1946. The ruling party was established on September 9, 1923 under the name of *Halk Partisi* (People’s Party) and changed its name to

¹² The single party regime in Turkey can be characterized as “... westernist, and secularist in its outlook, authoritarian in its style of governance and etatist-nationalist in its strategy of development,” Sunar (2004, p. 122).

Cumhuriyet Halk Partisi , CHP, (Republican People's Party) one year later, on November 10, 1924. CHP was in power until the 1950 general elections.

The general parliamentary election held on July 21, 1946 can be considered as the end of single party regime in Turkey, as the newly established¹³ *Demokrat Parti* [DP] (Democratic Party), gained a sizeable number of seats (62) in the parliament and formed a group.¹⁴ The CHP, which was contested for the first time, won an overwhelming majority (396 seats) in the parliament and sustained its dominance.¹⁵ Four years later, however, DP won the May 14, 1950 elections and came to power with a strong majority in the parliament.

Turkey, therefore, “made the first major democratic breakthrough in the Middle East, in 1950, dropping its single party, military authoritarian system for a free-wheeling, two party, contested democracy. It did so at a time when it was still largely agrarian, with a small middle class and high level of illiteracy,” Waterbury (1994, p. 24).

Although, the establishment of multi-party (de facto two-party) system was a major step forward, it was hardly a breakthrough towards full democracy. The spectrum of political views that are allowed to be represented by political parties was extremely narrow. Parties that represent political left (broadly defined to cover not only communist parties but social democratic ones as well), minorities and religious views were effectively banned. In other words, only those political parties that reflect the differences among the ruling elite were allowed. During this period such a “quasi-democratic” regime was quite acceptable for the western democracies (USA and Western Europe) who tolerated the pro-west right wing dictatorships of Portugal and Spain. On the other hand, it must be admitted that such a starting point that characterized the initial conditions inevitably had a long enduring, and negative, effect on the development of democracy in Turkey.

A second negative characteristic of the multi-party (in effect, two-party) system on the development of democracy in Turkey was assigning a monopoly power to political parties to represent social, political and economic demands of the people. The system was based on the necessity of the political parties but went beyond it by assuming their sufficiency in collecting and transmitting people's demands. Therefore the system not only did not attempt to encourage civil society but also was hostile to its existence. This resentment, although exhibited considerable variations in time, is another major factor that adversely affected democratic development of the country.

¹³ DP was established only seven months prior to the election, on January 7, 1946 by a group of politicians that deserted from the ruling CHP, including the former prime minister Celal Bayar. Although the disagreement with this group and the ruling party became clear during the parliamentary discussions on Law No. 4753 entitled “Provision of Land for Farmers” in early 1945, it had surfaced even before when some members of this group demanded changes in Turkish legislation to assure the application of liberties and rights that were envisaged in the UN charter which the Grand National Assembly (the Turkish parliament) approved in August 1945. When this proposal was disallowed, its four proponents left the CHP and resigned from their seats in the parliament. It should also be pointed out that, DP was not the first political party that was founded in Turkey. During the single party era two unsuccessful attempts were made to set up a second opposition party. The first of these, *Terakkiperver Cumhuriyet Fırkası* (Progressive Republican Party) was established on November 17, 1924 but it was banned on June 25, 1925. A second attempt was made on August 12, 1930 by the establishment of *Serbest Cumhuriyet Fırkası* (Liberal Republican Party) shared the same destiny and it was also banned on November 17, 1930. Both of these political parties didn't have the chance of participating elections. In contrast *Milli Kalkınma Partisi* (National Development Party), which was established on September 5, 1945, participated in few elections, without any success. The party, nominally, survived until May 28, 1958. For a detailed account of the transition to multi-party system, see Koçak (2011) & (2012).

¹⁴ 1946 general election was from being fair a fair one. “Open vote, secret classification” rule, widespread intimidation and the absence of judicial oversight led it to be labeled as “dubious election.”

¹⁵ It is interesting to note that the official figures for the distribution of votes among political parties are not available for the 1946 elections. This strange outcome was the result of the peculiarity of the voting procedure. In 1946 elections, votes were cast for candidates and not for political parties. Therefore a voter has the right of compiling a mixed ballot. As a result of this rule, it was almost impossible to identify the party distribution of votes. However, the number of seats earned by political parties were also not clear. Turkstat's (Turkey's official statistical agency) election statistics starts with 1950 elections. Private researchers offer different figures for the seat distribution, although they all agree that the parliament was overwhelmingly dominated by the CHP. The 1946 election results that are given in different sources, such as TÜSIAD (2001, pp. 208-210), Demirel (2011, p.60), CHP's web and in Heper & Criss (2009, p.350) do not match. The figures given above are taken from the last source.

Finally, during this period the CHP government started to give signals to relax the rather stringent conditions that were imposed to secure secularism. On November 25, 1948, for example, religion was included in primary school curriculum, as an elective course, “upon the popular demand”.

2.3.2. *Towards a new economic development strategy*

Although Turkey started with the idea of economic development through private initiative, it had to resort to state led industrialization & development strategy, *etatism*, after the 1929 crisis. The WWII conditions, on the other hand, inevitably restricted Turkey external economic relations and the country more or less was a closed economy when the war was over.

During the 1946-50 period Turkey softened its *etatist* approach and started to rely more on the private sector. The “1947 Development Plan,” for example, explicitly recognized the primacy of the private sector.¹⁶ The signals for liberalization of the foreign trade and the foreign exchange regime were also given. On September 7, 1946 Turkey launched its first devaluation by changing TL/US\$ exchange rate from 1.30 to 2.80 (115.4%). This was, in a sense, a puzzling decision, since Turkey in 1946¹⁷, was enjoying both a current account surplus and sizeable foreign exchange reserves, well above country’s total imports. However, this decision was taken as an integral part of the policy package aimed at partially liberalizing Turkey’s foreign trade to become eligible for IMF membership and integrate its economy to the changing world environment.

These developments were to a considerable degree the results of the demands stemming from social groups that have accumulated significant wealth, especially during the WWII years, and were also influenced by the drastic changes in the world economy. Turkey’s warm relations with the Soviet Union during the pre-war years were replaced with mutual mistrust. Turkey was no longer in a position of getting support from this country for its industrialization and also felt the need to be protected against a Soviet aggression. Following this development coupled with the immensely increased role of the United States of America on the global scale, Turkey quickly found itself under the USA’s strong influence. The USA on the other hand was trying to promote private sector based development with more reliance on agriculture, encouragement of foreign capital and a more liberal trade regime. In response to these demands, therefore, it is fair to say that Turkey already started to change its economic development strategy well before the 1950 elections.¹⁸

2.4. *The infancy phase of the of the multi party regime (1950-1960): disappointment on both fronts*

The DP came to power with a strong majority after May 14, 1950 parliamentary elections and remained in power for a decade. Unfortunately, Turkey’s first experiment with the multi-

¹⁶ Using a multi-year planning framework for industrial policy was not new to Turkey. In 1934 Turkey, which placed second globally after the Soviet Union, launched a plan for industrialization. The plan, in contrast to Soviet counterparts, did not attempt to cover the whole economy, i.e., it was a sectoral plan for industrialization. In fact, the plan consisted of a list of industrial projects given as concrete targets to be fulfilled by the public sector. The plan did not assign any targets for the private sector. Turkey prepared a second five year plan in 1938, but WWII prevented its implementation. The 1947 plan was Turkey’s third attempt and incorporated some significant differences from the previous ones. First of all, unlike the first two plans, the third one was a macro plan. Second it was prepared to offer a reliable policy framework to get foreign aid. Therefore it was based on an exogenously given foreign savings constraint. The plan, like previous ones, did not assign any targets for the private sector. Third, the envisaged development strategy of the plan placed priority on agricultural development, rather than industrialization. The plan accepted the view that Turkey has a comparative advantage in agriculture, and therefore specializing in agriculture will enable the country to integrate itself beneficially to the world economy. The 1947 plan was not put into effect and remained as an intellectual exercise.

¹⁷ The 1946 devaluation did not produce the expected results on Turkey’s foreign trade. The increase in country’s exports was, compared to jump in its imports was, too modest to prevent the sharp deterioration in country’s trade balance. In fact, 1946 was the last year Turkey had a surplus in its foreign trade.

¹⁸ On this point see Owen & Pamuk (1998, pp. 14-106). The U.S. views are best presented in controversial, albeit evidently influential, report published as Thonburg, Spry and Soule (1949). See also Yalman (2009, pp.176-197) for a critical evaluation of the changes in policies during 1946-50 period.

party system ended with a military coup launched on May 27, 1960. During its tenure DP wasn't able to stick to its original promise of liberalizing the political system and the economy.¹⁹

The DP government inherited a relatively strong if over-centralized bureaucracy. Since the cadres of the DP were recruited from the CHP and some had held high political positions during the single party regime²⁰, they were quite experienced in working with the bureaucracy and were knowledgeable about its operational procedures. Therefore the continuity in the state was sustained. The DP also inherited the CHP's experience in political party management and had the opportunity of adopting it to its purposes during its tenure between 1946 and 1950 as the major opposition party.

2.4.1. Political institutions (1950-60)

When it came to power, the DP did not have a well-defined agenda in developing democracy in Turkey.²¹ After the elections, the government devoted most of its energy to defending its own position rather than undertaking political reforms to promote democracy. DP's relatively "liberal" political stance faded away in time and the regime, starting from 1954, but most notably after 1957, gave signals of shifting towards an authoritarian regime.²² However, this tendency never reached the stage of blocking parliamentary and local elections. Although there were some irregularities, two general elections took place under the governments formed by the DP.

DP, during its tenure, remained faithful to its original stance concerning the status and the role of the religion in society. DP was quite open to the demands concerning religious freedom. In fact, DP distinguished itself from CHP's "assertive secularism" during the single-party era, and, therefore, could be considered closer to the "passive secularism."²³ Nevertheless, DP also tried to attain a balance with religious demands and the benefits of sustaining a secular environment for development, Singer (1977, p. 181-4).

The DP era was infamous for introducing populism to Turkish political life. On the other hand, although "clientelism" and "patronage" were not new to Turkish political life, both gained momentum during DP's tenure.²⁴ These maladies of the infancy period of multi-party democracy, though changed in form and intensity, continued to be effective in the later years.

2.4.2. Economic developments (1950-60)

DP's economic program was not that different from the policies followed by the CHP between 1946-50, with the exception of its stronger emphasis on agricultural development²⁵ and import liberalization, [Owen & Pamuk (1998, s. 106)]. Favorable weather conditions and strong external demand due to the Korean War boom of 1950-1953 enabled the economy to attain exceptionally high growth performance (the average rate of growth of GDP was

¹⁹ Political as well as economic developments during the DP era are examined in detail in Demirel (2011).

²⁰ For example, DP's chairman Celal Bayar previously served first as the minister of economy (1932-7) and then as prime minister (1937-9).

²¹ DP's strategy was, in the words of Sunar (2005, p. 123), "to underplay cultural modernization, emphasize development and to hitch the hitherto frustrated energies of social groups to the party so as to take on bureaucracy in a drive for party supremacy."

²² As was previously pointed out the Polity Index for 1954-9 was significantly below 1950-2010 average. This is the longest time period at which Turkey diverted negatively from its democratization path. It should, however, be pointed out that, as can be seen again from the Polity Index figures, the shift towards authoritarian regime was much more moderate than observed under military regimes of 1971 and 1980.

²³ The "assertive" and "passive" secularism as concepts and their distinction are introduced and extensively discussed in Kuru (2006 & 2007) and, notably, in Kuru (2009, Chapter 1). Assertive secularism aims at privatizing and individualizing religion and limits (even bans) its visibility in the public sphere. In contrast, passive secularism, emphasizes state neutrality towards various religions and allows public visibility of religion. See also Hale and Özbudun (2010, p.22)

²⁴ One of the slogans used by the DP was "We will create a millionaire in every district".

²⁵ It is ironic that, despite the fierce opposition of the founders of DP to Law 4753 entitled "Provision of Land for Farmers" in 1945, most of the land distributed under this law was realized during DP's tenure. Law 4753 remained effective until 1973 and 22 million hectares of land were distributed to 446 825 families in 8116 villages. See Keyder and Pamuk (1984-5) for a the analysis of this law and its consequences.

11,4%) between 1950-53. The import liberalization policy²⁶ led to a considerable increase in consumption standards, notably in urban areas.²⁷ DP also immediately made some changes in Turkish legislation to promote foreign direct investment.²⁸

The course of the events reversed in 1954 as the agricultural production suffered severely from drought and as external terms of trade sharply turned against Turkey. As a result of these factors, Turkey's GDP fell 3% in 1954. This was a major blow to DP's agriculture based development strategy.

A major characteristic of DP's agricultural development strategy was the promotion of mechanization in agriculture. This policy was, to a degree, successful. The introduction of tractors and other agricultural machinery increased labor productivity and led to an expansion in the land used for agriculture. The heavy emphasis on agricultural mechanization also led to two changes with some adverse social effects. First, productivity of the land did not increase and a sizeable surplus labor in the rural areas was created. Land productivity became a bottleneck, starting from mid-1950s when land use reached the limits of cultivable land. Second, surplus labor in the rural areas started to migrate and led to a speedy, disorganized, almost chaotic, urbanization. Farmers gained from DP's pro-agriculture policy and increase of income in rural areas also led to some capital accumulation notably in the hands of large landowners. In the meantime, increases in the transportation facilities, notably roads, expanded the domestic market and promoted trade.

It became clearer that the positive results that were achieved between 1950 - 1953 were mostly due to specific conditions and were not sustainable. The DP government, instead of launching a new development strategy, offered substantial support and extended credit to agriculture. This populist approach enabled DP to sustain the growth performance of the economy until 1957. But after this date the country faced with inflation and severe current account deficits.²⁹

The failure of the economic program of the DP government led to a change in its policies. The government had to step back from its import liberalization, Hershlag (1968, pp. 178-184).³⁰ This was followed by a series of measures that changed the government's market oriented approach into an interventionist, but evidently unsuccessful, one. The severe balance of payment difficulties eventually led to a major crisis in 1958 and the government was forced to de facto devalue Turkish lira at an unprecedented rate of 320%.³¹ Under the strong pressure of the OEEC, as well as individual countries such as Germany, the government had to accept a very stringent stabilization program on August 4, 1958.³²

When the 1950-60 period is considered as a whole, it is evident that DP failed to fulfill its own agenda of moving Turkey towards liberalization both in the political and economic spheres. DP's idea of relying on the private sector was not systematically aimed at creating a

²⁶ These concepts and their significance are discussed in Sayarı (2011). See also Keyman & Öniş (2007, pp. 90-1) for the endurance of clientelist-patronage politics. According to Sunar (2004, p. 126), "DP's strategy was to incorporate the middle class peasantry and urban middle commercial groups into a patronage front- a front that would be held together by state assisted capitalist growth."

²⁷ The governmental decree dated August 10 1950 considerably liberalized the import regime.

²⁸ These laws were enacted on August 1 1950 and January 18 1954 respectively.

²⁹ See Owen & Pamuk (1998, pp. 106-110). The inflationary effects of DP's agricultural support policy is discussed in Akyüz (1973, pp. 172-180).

³⁰ This policy change started as early as in September 1953 when government took its first measures to end liberalization in foreign trade and exchange rate regimes.

³¹ This figure is based on comparison of official exchange rates before and after the devaluation. In practice, the official exchange rate lost its relevance well ahead of these decisions as Turkey was already in a multiple exchange rate system. The share of transactions on official exchange rate was negligibly small. When the relative importance of the transactions undertaken under each exchange rate is taken into account, the devaluation rate is much lower, around 69 %.

³² See Krueger (1974, pp. 29-116) for a detailed analysis of the economic developments between 1953 and 1960, and the stabilization program. See also Hansen (1991, pp. 338-351)

competitive market economy.³³ Instead, DP relied heavily on public funds to promote private sector development. This policy, when combined with the clientelism and patronage, not only negatively affected the political environment, but also led to the creation of an inefficient private sector whose survival critically depended on support from the government.

2.5. Fragile democracy and import substituting industrialization (1961-1979)

After the 1960 coup d'état (the first in the Turkish Republic's history), a new constitution was prepared. The 1961 constitution was based on the idea of establishing a set of institutions, such as a senate (upper house), a constitutional court and a state planning organization to secure and strengthen the rule making and enforcing capability of the system and enhance checks and balances. It was hoped that the framework would prevent any anti-democratic forces becoming effective and put an end to economic populism by containing the choices of governments within the rational boundaries of economic policy making.

The achievements were, at best, moderate. First of all, there was a paradox embedded in the process itself. It was initiated by a military takeover, a move which has traumatized Turkish society ever since. The 1961 constitution was prepared under the military rule and was a hybrid document that was, on the one hand, in line with the aspirations of the society and a major progress towards establishing democratic institutions and on the other hand, legitimized the military tutelage, and constituted a basis for future military interventions to civilian political life. Secondly, there is no doubt that the planned development, which was institutionalized by the constitution, considerably improved the technical quality of the economic policy making process in Turkey.³⁴ However, in contrast to initial hopes, it had quite a limited effect in containing the populist tendencies of the politicians.³⁵

2.5.1. Political institutions (1961-79)

From a political point of view, 1960 - 1979 was a difficult period, full of uncertainties, political conflicts and violence. However in retrospect, the following developments seem to be relevant for Turkey's future political development

- i) Almost all agents, including the military, accepted "electoral democracy." The junta that took the power after May 27, 1960 coup d'état, immediately promised to go to elections as early as possible. The junta kept its promise and elections were held on October 15, 1961.³⁶
- ii) *Adalet Partisi*, AP, (Justice Party) which de facto replaced the DP followed the tradition established by the latter. It was a pro-private sector and passive secular

³³ It should, however, be pointed out that this does not mean that DP did not make any attempts to improve the institutional base of the market system. For example the corporate law (Law No. 6762) was accepted on June 29, 1956. This law, with some revisions, remained in effect until 2012. However, except such obvious necessities, DP governments were reluctant in developing the institutional infrastructure required for a healthy market system.

³⁴ In this second phase of Turkish planning, the practice of assigning targets only for the public sector remained. For the private sector, the plan only referred to projections and introduced policy measures to give indications to the private sector. The plan was based on Jan Tinbergen's approach to planning. In fact Tinbergen, himself designed the first five year plan and the institutional framework for planning in Turkey. Tinbergen's framework was also very clear in distinguishing the institutional responsibilities at different levels of design and implementation. It was parliament's responsibility to formulate the five year plan strategy and targets. Therefore in Turkish practice, a five year plan document is the law accepted by the parliament. Yearly programs, on the other hand, were left to the government decrees. Dealing with the technical details was the responsibility of the State Planning Organization. See for the Türkcan (2010), for a detailed account of Turkish planning.

³⁵ From the very first years of planning politicians became vocal in expressing their criticisms of the idea of planned development. For example a prominent Turkish politician, Süleyman Demirel (prime minister and later president of Turkey) in the 1960s became notoriously famous with his following statement: "What we need is not a plan but *pilav* (rice meal)." Although, politicians who expressed their discontent with the planned development approach tried to express it in the "plan versus market" context, it soon became clear that that was not their main concern. Such politicians, notably those from center right political parties did not make any serious attempt to strengthen the foundations of market economy in Turkey. On the other hand they also seemed content with planning, when they have sufficient political power to amend plans and prepare yearly programs according to their current needs. In other words, the old habit of not complying with rules was the main reason behind their opposition.

³⁶ The relatively short tenure of military rule distinguishes Turkey from some other countries that had similar experiences in 1960s. For example in Brazil after 1964 coup d'état military remained in power until 1985. In Greece, military regime survived for six years, between 1967 and 1973.

political party. This party was in power for most of the 1961-79 period, either as part of a coalition government or alone.

- iii) Starting from the early 1960s, Turkey saw coalition governments that introduced a new dimension to political competition. Between 1961 and 1979, Turkey had 10 coalition governments (and one minority government), Tutar & Tansel (2011, Table 1). Although the performance of coalition governments varied considerably during this period and in its aftermath, notably due to the later experiences of 1990s, the concept of coalition government gradually became almost synonymous with “paralyzed government” in the eyes of the public.
- iv) In 1970s, politically effective Islamic parties were born. As can be seen from Table 4, in general, their life span was cut short by constitutional court decisions that banned them. However, these decisions, in practice, only led to a change in the name of the political party, since they were immediately reestablished under a different name.
- v) In the elections held between 1973 and 1979 the MSP exhibited some, if limited, success. MSP was represented in parliament and won the mayoral administrative positions. MSP’s election performance during this period is given in Table 5:
- vi) During this period, for the first time in Turkey’s history, an Islamic party participated in a coalition government. The coalition government formed by a social democratic CHP, and the Islamic National Salvation Party (MSP) on January 26, 1974 ushered in a new era in Turkish politics.³⁷ In this coalition government MSP held the deputy prime minister post and several cabinet positions (including important ones such as the ministry of industry and technology). Sharing the responsibility of the government under rather difficult conditions (an oil crisis followed by deteriorating events in Cyprus that eventually led Turkey’s military intervention) enabled MSP to get acquainted with governance issues and, also, was also informative for the public to understand its political stance. This experience, no doubt, was a major leap forward in Turkey’s journey towards democracy.

2.5.2. *Economic developments (1961-79)*

1961-79 was a period of industrialization and economic growth for Turkey. The import substituting industrialization strategy that was adopted in the early 1960s was not a choice but a necessity. Although this policy worked reasonably well for some time, its shortcomings also became visible in time. The import substituting industrialization strategy, which initially worked along the lines its name suggested, gradually transformed into an unsystematic protection policy that sustained the monopoly power of the incumbents. On the other hand, the inward-looking emphasis discouraged firms to search for export markets. Turkey once more found itself in balance of payments difficulties that reached a crisis level towards the end of 1970s. During this period the following developments had enduring effects on the Turkish economy and economic policy making.

- i) Industrialization was a major shared target by all political parties, including the Islamic MSP. In fact, MSP was much more vocal than any other political party on this issue.
- ii) The economic role of the government, in a sense, increased. Development plans envisaged certain industrial projects to be undertaken by the public sector along with investments in infrastructure. However, the most important role of the

³⁷ After the dissolution of the CHP-MSP coalition MSP joined two other coalitions led by center-right AP and other parties, in 1975 and 1977.

- government was the protection of the private sector. That was achieved by custom duties, import quotas, and foreign exchange regulations.
- iii) The inward-looking industrialization strategy required an expanding domestic market. The government gave priority to enlarging highway transportation, especially in connecting villages through roads. During this period Turkey more than doubled its total highways. Along with the efforts to create an integrated domestic market, governments pursued the policy of supporting agricultural incomes through support prices and other transfers.
 - iv) Industrial companies, started to establish sales networks to enjoy the potential benefits in domestic markets. This created new cooperation opportunities between large industries overwhelmingly located in urban centers (industrial zones such as Istanbul) and the relatively weak commercial capital on the peripheries (smaller cities). Small and medium sized commercial firms from small Anatolian cities became increasingly more engaged in domestic commerce.
 - v) One interesting outcome of the combination of populist policies with the widely shared industrialization strategy was to promote industrialization through small and medium enterprises (SMEs). This idea was first explored during the 1960s in forming workers cooperatives, to be financed by the savings of Turkish workers abroad. A revised and elaborated version of the project was promoted by the CHP in the 1970s under the name of “popular sector,” i.e. small and medium sized industrial companies, owned either by workers or by a group of local shareholders. The idea of establishing industries on the periphery was strongly shared by the MSP. However, MSP was not as enthusiastic about spreading ownership to small savers as CHP was. The achievements were, at best, modest. Many companies failed due to politically motivated choices concerning output mix, technology and location, mis-management and the lack of a qualified work force. However, this approach served to change the business mentality in the peripheries and encouraged local residents to establish SMEs. In fact, during this period, and especially in the 1980s, there was a significant increase in the number of small and medium sized commercial firms. It should, however, be pointed out that since the whole program was based on allocating public funds (through specialized state owned development banks) it also strengthened the clientelist and patronage politics.
 - vi) Turkey began to send guest-workers abroad in 1961³⁸ most notably to Germany. The visible contribution of guest workers was their remittances which helped Turkey to deal with its balance of payments problems. However, as these workers started to return to visit their families in Turkey, they also introduced new consumption patterns which eventually created demand for the domestic consumer goods industry. A much more important, if indirect, long term contribution of these visits was that the returnees regaled their relatives living in the rural areas of Turkey with guest-workers’ own experiences related to social and political rights and democracy in Europe.

2.5.3. *Towards the 1980 coup d’etat*

The most important external shocks affecting Turkey’s politico-economic development during the 1961 - 1979 period were what has been dubbed the “First Oil Shock” after the October (Ramadan or Yom Kippur) War in 1973, and the “Second Oil Shock,” following the Iranian Revolution in 1979.

³⁸ Between 1961 and 1979, 878 949 workers went from Turkey to as mi migrant workers to various countries, mostly to Germany. This figure is taken from Aydaş, Neyaptı and Metin-Özcan(2004 Appendix 1).

Turkey as a net oil importer was badly affected both by the increase in oil prices and the decline in demand for its exports. The 1974 Cyprus conflict and the U.S. arms embargo that followed also contributed to Turkey's economic problems and concerns over the course of the economy increased, notably, in 1977, when the current account deficit of the balance of payments reached 3.9% of GDP. During the 1977 - 1980 period the Turkish economy stagnated, inflation soared and balance of payments difficulties intensified. At the same time the domestic political tension increased with political violence reaching an unprecedented level. In order to deal with the economic problems that the country was facing, two attempts were made, in 1978 and 1979, to launch structural adjustments programs in line with the International Monetary Fund (IMF) suggestions. Both failed, mostly due to domestic political reasons. On January 24th 1980 the ruling coalition government, announced a radical program to change Turkey's economic strategy from import substituting industrialization to export promotion. In order to implement this transformation the program envisaged the liberalization of foreign trade and the financial system and privatization of state owned enterprises. Again, the domestic political environment did not allow the government to implement the program. On September 12th 1980 the military intervened, the parliament was dissolved, all political parties were abolished and democratic institutions were prevented from functioning. The military junta, decided to leave the management of the economy to technical experts and invited Turgut Özal, the architect of the "January 24 Program" to assume the responsibility of its implementation as deputy prime minister.³⁹

The 1980 coup d'état was a major shock for Turkey. It led to drastic changes both in political and in economic institutions. This military junta ruled the country for almost three years. During this period Turkey suffered from political repression, arbitrary arrests, imprisonment without trial, torture, and other severe human rights violations. A new constitution was prepared under the military rule and was put to a national referendum on November 7, 1982. Included in the vote was approval of the leader of the military junta as president for a seven-year term. A resounding 91.4% of the electorate approved the proposals. The only parts of the country to register significant "no" votes were those with large Kurdish populations.

The parliamentary elections that were held on November 6th 1983 were a shock to the military junta. Despite the junta's revealed resentment, a newly established party, *Anavatan Partisi* (Motherland Party), ANAP, under the leadership of former deputy prime minister Tugut Özal, won the elections with a large margin and secured a comfortable majority in the parliament that enabled it to form a single-party government.

3. Turkey's experience with Neo-Liberalism (1981-1999)

Turkey's 1980 program aimed at integrating Turkey into the global economy by switching to an outward looking growth strategy and by allowing market forces to play a dominant role in allocating resources. Within this framework, Turkey followed the so-called "classical approach" and first liberalized its foreign trade, followed by financial markets and finally the capital (finance) account of the balance of payments.

Until 1991 single party governments formed by ANAP ruled. Turkey entered a new era of coalition governments after 1991 which ended with the clear election victory of the AKP in 2002.

3.1. Political institutions (1981-1999)

- i) ANAP was the continuation of DP-AP tradition in Turkey's politics. From the very beginning ANAP was considered an umbrella party representing the political views of different political groups ranging from traditional center-right to

³⁹ For a detailed discussion of crisis environment of Turkey in the second half of 1970s and the history of developments that led to 1980 program, see Wolff (1987, pp. 46-97).

- nationalist and Islamists.⁴⁰ ANAP enjoyed the benefits of having a reformist vision and political and economic stability until the end of 1980s. However, it was more vocal in defending its “passive secular” views than its predecessors. The political coalition that initially gave support to ANAP and its policies continued until the 1987 elections, but its power, especially after the loss of the 1991 elections, gradually eroded and the party never recovered its credibility. For the remainder of the period ANAP along with *Doğru Yol Partisi* (True Path Party) DYP was on the political scene as representing the center-right political tradition.
- ii) Starting from mid 1980s Islamic parties, *Refah Partisi* (Welfare Party), RP, and *Fazilet Partisi*, (Virtue Party), FP, again were on the political scene, with RP increasing its vote share up to 28.7% in the 1995 elections. However RP was banned by the constitutional court, and the FP, which replaced it, failed to repeat its success in the 1999 elections, (Table 6).
 - iii) During this period RP joined coalition governments and party leader, Necmettin Erbakan, became Turkey’s first Islamic prime minister.⁴¹ Unfortunately, it triggered a harsh and totally anti-democratic response by the military and the so-called “post-modern coup” was staged. In 1997, the military once more intervened to topple RP from the coalition which it was heading. It was not a coup in the traditional sense. The military used the effectiveness of the threat to launch a coup to achieve its aim. RP was closed by the constitutional court. The existing government resigned and a new coalition government was established. The “post-modern coup” was a major impediment to the democratization efforts in Turkey.
 - iv) At the local level RP and FP won only a small fraction of the mayoral positions. However in the 1994 local elections RP, by winning the mayorship of Istanbul, the largest city in Turkey, made a spectacular political gain.
 - v) In 1999, two major earthquakes struck northwestern Turkey.⁴² These earthquakes caused enormous havoc with mass death, destruction and suffering. To compound the suffering, the incompetence of the authorities in providing relief, and corruption allegations - both in regard to those efforts and involving construction and zoning code violations - seriously damaged the credibility of the state in the eyes of the public. This disillusion had profound effects on people’s political choices. Voters, besides alienating themselves from the political parties that formed ruling coalition⁴³ also discredited political views favoring any state intervention. In a sense, the centuries old “mother state” concept was also buried by these twin earthquakes.⁴⁴
 - vi) Turkey faced a serious Kurdish problem that turned into an armed conflict starting the early 1980s, which caused tremendous loss of life over the following decades. No ruling government was able to find a democratic way to make progress in solving the social/political and economic problems behind this conflict. On the other hand, the very existence of this issue was used as an excuse for not undertaking further structural reforms
 - vii) It should also be pointed out that anti democratic legislation that was introduced under the military regime during 1980-2 survived in its aftermath. The core structure of the 1981 constitution remained virtually unchanged until the first

⁴⁰ In this sense ANAP can be compared with the Japanese Liberal Party in the post II WW era.

⁴¹ Necmettin Erbakan previously served as deputy prime minister in the 1970s coalition governments.

⁴² Izmit on August 17 and Düzce on November 12, 1999.

⁴³ It was a rather unlikely coalition formed by social democratic *Demokratik Sol Parti* (Democratic Left Party, DSP), center-right ANAP and nationalist *Milliyetçi Hareket Partisi* (Nationalist Action Party, MHP).

⁴⁴ See Akarca & Tansel [(2008) and (2012)] for the impact of the 1999 earthquakes on the 2002 elections.

decade of the XXIth century. ⁴⁵ Another crucially important example is the “political party law” which was enacted under the military regime. The law, which is still in effect, establishes an over-centralized political party structure and assigns virtually absolute power to the party chairman.

3.2 economic developments (1981-1999)

- viii) The years 1981 - 1991 may be considered an era of reform. During this period, Turkey liberalized its foreign trade, financial system and finally financed account of balance of payments. The reform program in many ways was not completely satisfactory, and continues from different angles.⁴⁶ However it would be fair argue that the program has achieved its stated objectives, and therefore was successful within that context.
- ix) ANAP’s record in economic institution building was mixed. ANAP’s deregulation in foreign trade and financial market liberalization almost reached the point where it created an unregulated economy. The embarrassing outcomes of “bankers’ crisis” in 1982 and the “imaginary export” scandals⁴⁷ in the following years forced the ANAP to take the issue of re-regulation seriously. As a result, changes were made to strengthen supervision in banking, allow the Central Bank to act more independently in designing and implementing monetary policy as well as establishing a Capital Markets Board to regulate and supervise the emerging capital market.
- x) ANAP’s pro-market stance did not rule out government support to private sector. On the contrary, ANAP governments resorted to overly generous and widespread incentives to promote exports and investments. This approach, besides fueling clientelism and political patronage, also led to considerable waste of resources through corruption (as in the case of imaginary exports) and through supporting inefficient activities.⁴⁸
- xi) During this period, export oriented business flourished and spread all around the country. Some SMEs located out of the main industrial zones began to engage in export business, notably with neighboring countries. Although the high hopes of creating industrial centers that produce goods for exported in the smaller cities scattered throughout Anatolia were not fully realized, some SMEs were able to exploit this opportunity and expand their business. On the other hand, entering in a much more competitive export business environment influenced the business practices of such companies and indirectly contributed to the social change in those parts of the country.
- xii) The ANAP government started to suffer from “reform fatigue” as early as 1987.⁴⁹ However the reform process continued until 1991, thanks to the efforts of the economic bureaucracy, notably the Central Bank of Turkey. The governments that were formed between 1991 and 1999 failed to revitalize the reform efforts. During this period ruling coalition governments wasted their energies in dealing with

⁴⁵ Work on a new completely constitution according to internationally accepted democratic principles only started in 2007, with only half-hearted support of all political parties. As of mid-2012 no visible progress has been made. On the other hand civil initiatives, independent from political parties exhibit much more progress in reconciling different views towards a new democratic constitution.

⁴⁶ See Rodrik (1991) and Yalman (2009) for comprehensive critiques of the program. In Ersel (1996), on the other hand, the timing of the reforms, in the context of capital (finance) account liberalization is criticized.

⁴⁷ Imaginary export is a fraud scheme that involves falsification of records to overstate the value of exports to benefit from overly generous export incentives.

⁴⁸ In Ersel & Filiztekin (2008) it is shown that investment incentives during this period to a large degree failed to achieve their intended objectives.

⁴⁹ In 1987 Turkey had general parliamentary elections and for the first time ANAP was challenged by a populist center-right political opposition that threatens its secure position.

intra-coalitional power struggles and for many observers, Turkey suffered from serious governance problems. The incompetence of governments became visibly clear when the 1994 crisis was triggered by the severe policy mistakes of the then ruling government. The crisis weakened the economy and led to a considerable depletion in trust of the government's economic policies. This psychology didn't help Turkey when the country had to deal with East Asian and Russian crises of 1997 -1998.

- xiii) Neither ANAP nor the political parties that formed coalition governments during the 1990s attempted to reform the public sector. Issues ranging from inefficiency to corruption remained intact until the 2001 program. In fact, during this period governments were ineffective in dealing with the huge public sector deficits that threatened the stability of the economy. ANAP, despite its revealed willingness, hesitated to undertake public sector reform due to its expected high political cost. The coalition governments that follow ANAP didn't even bother to consider the issue seriously and engaged more in getting political rents out of the existing state of the public sector and its management.
- xiv) An unintended negative result of the liberalization of the financial system was the increase in public sector deficits through relaxing the public sector borrowing constraints. The development of the financial markets allowed the governments to borrow, first from domestic and, after the liberalization of the capital (finance) account of the balance of payments in 1990, from international financial markets. This enabled governments to avoid the restrictions that the central bank may impose on its credits to public sector. This eventually led Turkey to a major crisis in 2000, due to sharp increases in public sector borrowing requirements and public sector debt stock.

The economic crisis that forced the coalition government to a stand-by with the IMF in early 2000, turned out to be more severe than authorities imagined, and in 2001 Turkey had to launch a new, and more radical, structural adjustment program. The program explicitly targeted improving public finances, and restructuring the financial sector. In regards to the first objective, a sizeable primary surplus in the budget was targeted and privatization was both speeded up and its proceeds were allocated to debt reduction. The program was transparent, therefore the public was aware of its costs. However, the program did not face a strong public resistance. This may be attributed to a multitude of factors. First, the 1990s was a nightmare for almost all social groups in Turkey. Second, the program's political responsibility was, de facto, on the shoulders of Kemal Derviş, state minister responsible from the economy. In the eyes of the public, despite his political post, Kemal Derviş was considered as a respected economist and an eminent technocrat; and not a politician. Therefore he was well trusted. Third Kemal Derviş and his team were successful in assuring the public that the program is capable of effectively blocking the populist attempts to return to 1990s politico-economic environment. The careful design of the program, its sequencing and timing of reforms as well as the successful communication strategy of the reformers increased the credibility of the program in the eyes of the public. The program worked reasonably well⁵⁰, but its political cost to coalition partners of government that launched the reforms was unbearably dear. The three parties that formed the coalition government were wiped out in the 2002 elections to the point that all three ended up without a single seat in the newly elected parliament.

⁵⁰ As can be expected the 2001 program drew attention of many researchers. See for example Öniş & Şenses (2009) and references therein.

4. The AKP Era (2003-2012)

The 2002 elections carried a new party, AKP, established in 2001, to power. Although its founders were politically active in previous Islamic parties, the party itself was not a linear extrapolation of these parties in terms of its political stance and strategy. The founders of the AKP, as members of the FP, challenged the views of the old guard and openly demanded a radical shake up in almost all aspects of party structure and politics. Upon their failure in convincing the FP delegates in 2000, they left the FP and founded a new party, AKP.

AKP, from the very beginning, stressed its difference from its vague predecessors and even labeled itself not as “Islamic” but “Conservative Democrat”.⁵¹ The founders of AKP were sincere about their intentions and wanted to establish AKP as a party of masses, and not a party solely for the deeply religious groups in the society. Their emphasis was strongly on human rights, democracy and in favor of “free” market system. In contrast to its predecessors, the AKP, at least initially, was careful not to be identified as anti-Western.

4.1. AKP's election victories

A major and historically specific factor behind the rise of the AKP in 2002 general elections was the demise of the center right parties, (ANAP and DYP). Their dramatic failure in almost all aspects of macro governance wiped out their credibility in the eyes of their supporters. AKP filled this vacuum by addressing concerns and demands of these groups and gained their trust.⁵²

AKP, after coming to power, made two important moves that broadened the public confidence in its political program. They were:

- 1) A decision to strengthen Turkey's relations with Europe, notably by seriously pursuing its EU membership project and committing itself to development of human rights in Turkey.
- 2) A decision to continue to implement the IMF supported restructuring and stabilization program which was launched in 2001 by the previous coalition government. With this move AKP made its commitment to market economy clear and distinguished itself from the previous Islamic parties that were ambiguous on the role the market system and the economic functions of the state.

AKP's election success during its tenure was extraordinary. After DP in the 1950s, AKP is the second ruling party in Turkey to win three consecutive general elections. It is also the first political party in Turkey's history able to increase its percentage of the vote at each succeeding election. Election results given in Tables 8 and 9 clearly show that the AKP was able to secure a much higher vote share than any other “Islamic” party in the past. Second, AKP fared much better than the competing *Saadet Partisi* (Felicity Party, SP), in both general and local elections. AKP's rise, on the other hand, led to a total marginalization of the center-right political parties of the past.

Turkish politics underwent through a major change after 2001. The Twin Earthquakes of 1999 and 2001 crisis seriously damaged trust in existing institutions, notably the bureaucracy (both military and civilian) and the political parties. The significant vote shifts from political parties that were in the parliament to others, notably to the newly founded AKP, were unprecedented in the multi-party system in Turkey. The dissatisfaction with the existing political institutions, on the other hand, enabled civil society institutions to become more active and vocal on current issues. AKP seemed to be aware of the importance these

⁵¹ When one takes into account the differences between the old guards and “reformers” into account, AKP's effort to separate itself from previously established Islamic parties is understandable. Nevertheless, it is not clear whether rather ambiguous use of the term “conservative democrat” serves the purpose. For a review of the concepts and interpretation in the context of the AKP, see Akdoğan (2006).

⁵² AKP's success drew attention of many researchers and presently there is a voluminous literature that examines various aspects of this party. See, for example, Yavuz (2006), Yavuz (2009) and Hale & Özbudun (2010)

developments and revealed a program that placed emphasis on modernization, democratization, fighting against corruption and ethnic discrimination. AKP's program, therefore, was not only offering a fresh alternative to failing center right wing parties and but it was also opening a new avenue for political Islam. In sum, AKP entered the Turkish political scene with a reasonably well defined agenda supported by a reformist strategy.

In evaluating AKPs performance two points need to be underlined. AKP did not start a new mode in thinking in Islamic political society in Turkey, but correctly understood its evolution and made a serious attempt to deal with its changing socio-economic agenda. This segment of the society had been integrated into the economic system since the early 1950s, probably much more than their participation in the political sphere would indicate. Initially their participation was as provincial merchants and businessman; but later due to industrialization and fast urbanization Islamic political society became significantly more visible in large cities, both as businessmen and as workers. Under neoliberal policies, especially as a result of the export drive, some of these small business found ways to expand their activities and grew. In other words, the changing socio-economic structure of the country and increasing dominance of the market system integrated these people into the system and also fundamentally changed the composition and intensity of their socio-economic demands.⁵³ Therefore the integration of Islamic political society into the system was not merely a change in tastes and life-style of this group of people, but more importantly through changes and increases in their roles in production and trade. AKP was much more successful than its predecessors, in understanding and addressing these major changes in social and political demands of Islamic political society. The narrow agenda of the pre-AKP Islamic parties as well as their failures in practice increasingly disappointed their supporters. AKP by successfully distinguishing itself from pre-AKP Islamic parties in the eyes of the public was able to fill this vacuum.

During the same period, the socio-economic structure of Turkey has also changed significantly. The following, admittedly incomplete, set of socio-economic indicators may complement the picture given by the GDP series and help visualize the scope and nature of the socio-economic change:

- i) The illiteracy rate had declined to 6% in 2010 down from 67.5% level in 1950,
- ii) The proportion of urban population increased to 71% in 2010 from 18.8% in 1950.
- iii) The total length of highways and roads (including those that connect villages) increased to 367243 km in 2010, up from 88815 km in 1950.
- iv) In 1950 there were two radio stations broadcasting in Turkey and both of them were state-owned. In 2011 along with 15 state-owned radio stations, there were 1058 private ones operating in Turkey. Television stations showed a corresponding growth. In 2011 there were 255 TV stations operating in Turkey and only 15 of them were state-owned.
- v) In 2010 the total number of newspapers and journals published in Turkey was 6459. Their combined annual circulation was 2.57 billion.

Second, as a political organization, AKP bears a resemblance much more to the 1980s ANAP than pre-AKP Islamic parties. AKP is based on a large coalition of different interest groups with political inclinations ranging from traditional center-right to Islamists. Inevitably AKP had to follow a strategy to balance the occasionally conflicting demands of its coalition members. This would explain why AKP was on the one hand sincerely pushing Turkey's EU

⁵³ As is evidenced in Tuğal (2009) the change in the socio-political views of the Islamic political society continued after AKP came to the power. Increasingly, they favored participation in democratic life and a market economy.

membership issue and on the other hand keeping religiosity almost continuously in its political agenda.

4.2 the social and economic role of small and medium enterprises in Turkey

It has been argued that the AKP represents the interests of small business in Turkey. This statement is partially correct and obvious: As with all political parties, AKP is sensitive to the demands of small business, which directly affects the well-being of a major segment of society. On the other hand, it is an oversimplification to portray AKP as a political party of the small business. In fact, AKPs supporters are scattered to all segments of the society, such as big business, workers, farmers and bureaucracy.

Small and medium enterprises (SMEs)⁵⁴ have played a significant role in Turkey's socio-political life since the 1970s. Almost all governments have been faced with the challenge of SME development. Although some progress has been made, in general SMEs are still financially weak and, as was observed in recent crises, very vulnerable to macro shocks. Despite these well known facts, many researchers portray a much more positive picture for the SMEs, both with respect to their economic potential and also concerning their political influence. The much publicized concepts such as "Anatolian Tigers" and "Islamic Capital" are used almost interchangeably to describe SMEs. No doubt, there are some elements of truth in these characterizations. Nevertheless as I will attempt to show below, such identifications seem to be a result of untenable generalizations and/or overgenerous evaluations of SME performance. In order to get a more realistic picture of SMEs and their socio-political role, the following points need to be taken into account.

1) According to the 2008 Annual Survey Industry and Services conducted by TURKSTAT, the total number of enterprises operating in Turkey was 2,583,099. An overwhelming majority of them (2,565,844) employ less than 50 persons (paid workers and others). Among them, the share of enterprises that employ less than 20 persons in total number of SMEs is 99%. The average number of paid workers per SME was only 1.4 persons.

2) A major portion (46.4%) of the enterprises operate in trade, whereas those operating in manufacturing is only 12.5% of the total. The manufacturing sector does not exhibit significant differences from the overall picture: the number of SMEs in total manufacturing firms is very high (98%), and the average number of paid workers per SME in manufacturing is very low; 0.84%

3) The total number of enterprises increased 48.4%, from 1,740,353 in 2003 to 2,583,099 in 2008, which can be interpreted as a reflection of the relatively high growth performance of the Turkish economy during this period. Nevertheless, as can be seen from Table 10 the size distribution of enterprises with respect to employment remained almost constant, whereas large firms' share in value added increased at the expense of the SMEs.

4) Manufacturing sector data, on the other hand, raises some questions on the quality of the growth during the 2003 - 2008 period. As can be seen from Table 11, the share of the manufacturing enterprises in total declined. This decline is quite significant for enterprises that employ more than 50 persons. These results indicate that during this period, industrialization, at best, played a secondary role in Turkey's growth.

The figures in Table 12 support this view. During 2003 -2008 "per capita value added at factor cost in current prices" remained unchanged for SMEs.⁵⁵

⁵⁴ Enterprises that employ less than 50 persons (paid workers+ others) are considered as SMEs.

⁵⁵ Between 2003 and 2008 average annual increase in producers prices was 8.7%. In other words, per capita manufacturing value added, in real terms, actually declined for the sector as a whole.

5) The figures given above do not support the views that refer to the SMEs as “Anatolian Tigers.” In fact, the title “Anatolian Tigers” was expressing more the (mostly unfilled) hopes of the observers rather than the actual state of the SMEs in Turkey. It was expected (at least until the 2001 crisis) that such newly emerging industrial companies will be scattered all over Turkey and bring in dynamism that is required to compete in the export markets. Despite some progress, the outcome was considerably less than expected. Most newly established firms were not sufficiently competitive or financially sound enough to sustain their business.⁵⁶ However, it should be stressed that the SMEs constitute a very large and heterogeneous group of establishments and some of them were, indeed, very successful in expanding their business and in finding export markets. The problem with this optimistic view is overgeneralization of these success stories, while undermining the problems that SMEs were and still are, facing.

6) Another term which is used in connection with SMEs is the “Islamic Capital.” As is pointed out in Hoşgör (2011) this labeling is both confusing and misleading. First of all, what is meant by “Islamic Capital” is not made clear. If it is used to identify the religious beliefs of the major shareholders (in most instances sole owner) of the SMEs, indeed it may hold not only for most of the SMEs but also for many large companies in Turkey. In other words, identifying “Islamic capital” with small scale establishments is factually wrong. It is merely an expected result in a society that is 99% Muslim. On the other hand, the significance of “Islamic Capital” as an economic category is, at least, ambiguous. If it is meant that such enterprises constitute a “sub economy” in Turkey, it is not supported by the observations of most researchers.⁵⁷ Although it is possible to find some club-like organizations that favor each other while doing business, the rationale behind their formation does not seem to create sub-economies that can survive without interacting with the rest of the system. In fact, most of the SMEs engage in doing business with large establishments either taking part in their distribution networks or by providing produced inputs. Another argument concerning the Islamic nature of SMEs is related to their financing pattern. It is argued that such establishments rely on funds obtained from informal channels, (based on trust) and funds made available by an interest-free banking system (i.e. through “participation banks” as they are referred to in Turkey). The first part of this statement, although correct, only indicates the underdeveloped state of the Turkish financing system and the existence of a considerably large, if unaccounted for, economy.⁵⁸ It is also true that there is no reliable information concerning the nature of contacts behind such transactions. Therefore one can infer little from merely pointing out their existence. The second part of the argument seems to be neglecting the fact that participation banks are only a very small fraction of the Turkish banking system (see Table 13) and can hardly satisfy the financial needs of the SMEs. Participation banks, in recent years, are more active in consumer financing. Besides, these banks exhibited more interest in consumer finance than in financing SMEs. The major external financing source of

⁵⁶ These firms seemed to be enjoying low wages in such cities, and paying less attention to labor productivity growth. On this point see Filiztekin & Tunali (1999). Their financial weakness, on the other hand was a serious impediment to taking the necessary measures to restructure themselves. The 1994 and 2001 crises, therefore were extremely damaging for such firms. It seems that, in recent years, the “Anatolian Tigers” label lost its initial appeal.

⁵⁷ See, for example, Tuğal (2009) and Hoşgör (2011). However, see Demir, Acar & Toprak (2004), for a different view that emphasizes the “Islamic” character of such firms.

⁵⁸ According to the Ministry of Finance the size of the unaccounted economy “declined” to 27.7% of the GDP in 2011, from its 32.4% level in 2002. Other researchers, due to methodological differences have reached varying figures. Nevertheless, they all indicate the significance of the unaccounted economy. It should also be pointed out that the existence of unaccounted economy does not only complicate the economic picture, but it also has political implications. For example it is practically impossible to identify and categorize the business sector’s contributions to political parties. They are made available to the public after being aggregated under the title of contributions. Therefore, the only publicly revealed information concerning the source of finance of political parties is contributions made from the budget. This “treasury support” is distributed among the parties that received at least 7% of the votes in the general elections. Between 2003 and 2011 the total amount of such contributions was 1373 million TL. AKP received 47.2%, CHP 24.8 and MHP 14% of it. It should however be pointed out that there is a regulation concerning political party finance in Turkey and financial accounts of political parties are examined by the Constitutional Court.

SME's were trade credits (notably from larger establishments) and commercial bank credits, generally in that order.

In fact, channeling funds to satisfy the financing needs of the SMEs has been a major problem of all governments since the 1970s. Governments correctly realized that SMEs were vulnerable to economic fluctuations and magnify the negative effect of shocks. On the other hand, SMEs, besides being individually insignificant economic agents, also lack civil society institutions that can effectively defend their interests. The latter point is the result of various factors. One of them is related to level of development of democracy in Turkey, where political participation is weak and civil society is less developed. On the other hand some SME specific factors need to be taken into account. SMEs constitute quite a heterogeneous group and suffer from serious information problems. Therefore SMEs besides being more vulnerable, also have also much weaker bargaining power vis-à-vis governments. These characteristics of the SMEs made them subject to more political patronage than many other groups in the society.

4.3. The 2001 crisis and its aftermath

The 2001 crisis was a traumatic event in Turkey's recent history, leading to significant and enduring changes in the behavior of almost all economic agents. A closer examination of the nature of these changes may shed some light on the political and economic developments in the post-2001 period. In order to keep the discussion within manageable bounds the following aggregative approach is used.

4.3.1. A simple aggregative framework

It is assumed that economic agents are clustered under three major types. The first is the "economic policy making body." It comprises the government which assumes the design and implementation of the fiscal policy, along with its other political responsibilities and the Central Bank. The statutory independence of the Turkish Central Bank, in practice, is not sufficient to make a distinction between these two, and therefore, for practical purposes they are clustered under the same heading. The second type consists of those economic agents that can be labeled as "individually significant." These agents, because of their scale and/or systemic importance (i.e. intensity of their relations with other economic agents) are too important to be ignored by the economic policy makers. This does not mean that such agents, by themselves, can always influence economic policy makers to make decisions in their favor. What is important in this context is that, due to their social visibility, the economic policy maker, by itself, takes into account the expected reactions of these individually significant agents to policy alternatives. On the other hand the number of individually significant economic agents is relatively small and, in general, they are capable of cooperating with each other in defense of their interests. In other words, they have significant lobbying and/or coalition building capabilities. Typical examples of such agents are banks and incorporated business. The total number of agents in this group, after taking into account the locally important ones, is approximately a few thousand.

The final category of agents can be clustered under title of "individually insignificant." This group consists of small business (SMEs), workers, farmers etc. The agents in this category are quite heterogeneous but also share two common characteristics. First each has a negligibly small weight in the economy. Their entry or exit has almost no effect at the macro level and therefore can easily be omitted by economic policy maker. Second, although this group consists of a large number of agents, millions, in fact, they have limited or no power of forming effective coalitions among themselves to defend their interests and/or rights. Although group specific factors such as heterogeneity, lack of information and cultural background can be counted as reasons behind such deficiency, they hardly explain the relative backwardness of Turkey (say vis-à-vis Greece) in establishing alternative channels to

political parties (such as unions, civil society institutions) to aggregate their individual demands and effectively defend their causes. Although it is true that the military regime that ruled the country after the 1980 coup d'état, was responsible for the crack-down of the labor unions and civil society organizations, under the civilian rule in its aftermath (including the AKP era) little progress had been made to revitalize them.

In sum, in discussing the economic policy making problems, the above distinction between individually significant and insignificant agents goes beyond a mere issue of scale and delineates a very important dimension of the democratic deficit problem. It should also be pointed out that this framework does not logically lead to the conclusion that individually insignificant agents can be totally eliminated from the economic policy making process. First, as was stressed above, the number of agents under this category is incomparably large with respect to "individually significant" ones. The potential voting power of these agents is significant and therefore no government can afford to be totally insensitive to their demands. Second, individually insignificant agents still have a role in the social division of labor. For example SMEs have strong relations with the incorporated business either as providers of produced inputs for them or as agents in their distribution networks.⁵⁹ The democratic deficit imbedded in electoral democracy does not mean that the interests of individually insignificant agents will not be respected at all. It only signifies the fact that the degree of fulfillment of such agents' demands is left at the mercy of the government. It has therefore been the main source the survival of the clientelism and patronage since beginning of multi-party regime in Turkey.

4.3.2 The effects of 2001 crisis on economic agents

The effects of the 2001-crisis on the types of economic agents discussed above can be summarized as follows:

a) Economic Policy Making Body ("Government" for short): The 2001 program was quite successful not only in stabilizing the economy but also in launching reforms to restructure public sector operation.⁶⁰ The reforms undertaken by the coalition government were not confined to the economic sphere; in fact, despite the wide political differences among the coalition partners, the government was able to convince the parliament to pass major changes in the constitution, civil law and the penal code.

Nevertheless the coalition partners that launched the stabilization and structural adjustment program paid an incredibly high political price in the November 2002 elections. The unprecedented shift of votes from coalition partners to other political parties, notably to the AKP, was more related to voter anger concerning the policies that led to the crisis, rather than a reaction to the high social costs of the program itself. However, the AKP drew the right lessons from this episode. Realizing the importance of economic instability, the AKP governments placed strong emphasis on implementing the existing stabilization program and felt obliged to continue with the stand-by with the IMF.⁶¹ This decision increased the credibility of the AKP's economic policies notably in the eyes foreign investors and it was a

⁵⁹ In a fully democratic society where political participation is widespread and citizens' right to organize to defend their interests is unrestricted, economic policy decision making problems can be formulated as a game among players (government and interest groups), where all possess significant, albeit not necessarily equal, power. In electoral economies, where these rights and/or capabilities are restricted only to some segments of the society, the game needs to be redefined to take into account the existence of a large number of "insignificant" players along with few "significant" ones. In game theory this problem was first examined in Milnor and Shapley (1961), where a game with small number of large players (called "atoms") and infinitely more individually insignificant players (called the "ocean") and an appropriate value concept was introduced. Their contribution was generalized in Hart (1973) and extended to cover different types of insignificant players in Sabak (2005) and Szczerbak (2008). The latter works also highlight the asymmetry between the two groups of players. The reasoning developed in these works was used in analyzing governance issues for corporations with few large and many small shareholders.

⁶⁰ For a discussion of 2001 crisis and the program see Akyüz & Boratav (2002), Özatay & Sak (2002), Derviş (2005) and Togan & Ersel (2005).

⁶¹ See Ersel (2009) for an evaluation of Turkey's public sector finance during 2002-7.

major factor enabling Turkey to enjoy an exceptionally benevolent global economic environment. As can be seen from the figures in Table 14, Turkey was able to attract a considerable amount of foreign capital, notably in the form of foreign direct investment until the country felt the effects of global economic crisis in 2009.

The economy reacted positively and the GDP growth rate of the economy for 2003-2007 period reached to 6,9 %, well above country's long term growth rate (around 4,8 % for 1924-2010 period), inflation sharply declined and even a modest improvement in income distribution was observed.

AKPs attitude towards reforms was more complex. On the one hand, AKP was strongly in favor of political reforms to end military tutelage and expand religious freedom. On the other hand, AKP also took Turkey's EU membership issue seriously and therefore, decided to go along with the negotiation process, i.e. continued to undertake reforms needed to satisfy Copenhagen political and economic criteria.⁶² Therefore by referring to the EU negotiation process, AKP was able to convince the public concerning the necessity of the reforms undertaken. But as the EU negotiation process started to stall, it became an excuse for AKP to diverge from its reformist stance. In fact, AKPs loss of enthusiasm for reforms was not merely related to the problems that Turkey was encountering along the negotiation process. The reform process started from reforms with low short term social costs. Therefore, it was possible for the government to contain public resentment and even get some popular support for reforms. As the process continued the social (and therefore political) costs of the remaining reforms increased. The government, worried about its popularity refrained from taking such a political risk, and instead focused almost solely on the problem of achieving a high growth performance without endangering stability.

b) Individually Significant Economic Agents: Because of the significant differences in their functions a distinction is made between financial institutions, more precisely "banks" in the Turkish context, and incorporated business, i.e. relatively large non-financial enterprises.

i) Banks: The banking sector was severely hit by the 2001 crisis which, to a degree, it was also blamed for. The rather stringent measures in dealing with the 2001 financial crisis⁶³ were mostly directed to banking, and in a sense this sector felt punished. This led first to Turkish entrepreneurs shying away from investing in banking. It was substituted with foreign capital, notably through participation of foreign banks. On the other hand between 2002 and 2010 foreign banks themselves significantly increased their activities in Turkey.⁶⁴ Second, banks followed "cautious" strategies (both in their credit extension and in financing decisions) during the post 2001-crisis period.⁶⁵ The rather conservative stance of the Banking Regulatory and Supervisory Agency encouraged, even enforced, such behavior throughout the decade following the 2001 crisis. In sum, banks were strongly in favor of stabilization and, in general, considered financial reforms as inevitable cost of sustaining it.

iii) Incorporated Business: The 2001 financial crisis was also deeply felt by the corporate sector, which relied considerably on bank loans to finance its activities. The authorities correctly identified the need for recapitalization and the so-called "Istanbul Approach" was launched in 2001. The idea was to induce corporations to improve their competitiveness by allowing them to restructure their debts to banks under pre-specified conditions. The

⁶² AKPs motives in adopting an EU agenda became a source of controversy in Turkey. See Saatcioglu (2010) for a critical evaluation of AKPs approach to EU membership problem.

⁶³ See Stenherr, Tükel & Üçer (2004), Pazarbasioglu (2005) and Tükel, Üçer & Van Rijkeghem (2006) for the discussion of the strategy for restructuring the Turkish banking system after the 2001 crisis.

⁶⁴ Although the change in the numbers of foreign banks was insignificant (from 15 in 2002 to 17 in 2010), their shares in bank equity (from 1% to 14%) and in bank assets (3% to 13%) increased considerably.

⁶⁵ For example their capital adequacy and liquidity ratios were well above their legal limits and banks paid much more attention to hedging against foreign exchange risks.

“Istanbul Approach” was only partially successful in achieving its aims. In many instances banks and corporations were satisfied with cosmetic arrangements that improved their own financial tables and, in general, they paid much less attention to actual restructuring. The political authority, on the other hand, realized the difficulty of enforcing further costs to a strong coalition formed by corporations and banks and gradually stepped back from its initial demands. Therefore the “Istanbul Approach” boiled down to allowing the corporate sector a breathing space by partially socializing their crisis related costs. Nevertheless, corporations continued to follow a cautious strategy and contained their debt/equity and liquidity ratios within safe bounds.⁶⁶

iii) Individually Insignificant Agents: In contrast to banks and incorporated businesses, the remaining (small/insignificant) economic agents did not have means to protect themselves against such shocks. Unemployment considerably increased and, anecdotal evidence indicates that large numbers of small business were closed down.⁶⁷ During the post 2001 crisis period, the main problem for labor was unemployment. The recovery, although it led to considerable increased employment, wasn't sufficient to match the increase in urban labor supply. Therefore, for workers and small business the bitter memories of the 2001 crisis were kept fresh for the rest of the decade. The fear of unemployment and loss of business led them to support stabilization policies. Understandably, these economic agents were worried about any development that may increase uncertainty, and therefore were quite reluctant to support structural reforms.

In the light of the above discussion, three points need to be emphasized:

1) Stability was almost the only issue on which a consensus can be reached among all economic agents. Therefore from its own perspective AKP governments' strong bias for economic stability was the correct decision. It was based on two crucially important assumptions. The first assumption is that the single party government can establish and sustain political stability. Although faced with strong political resistance, this assumption held until 2010. The second is the “sufficiency” of the existence of a stable politico-economic environment for achieving fast growth. This assumption, although more controversial than the first, also held, at least for the 2003 - 2008 period. However, as was indicated above some of the credit for this growth performance should be attributed to exceptionally favorable global economic environment that enabled the country to attract large (by Turkish standards) foreign savings. The stand-by with the IMF played the role of an anchor and, therefore, increased the chance of implementation of the policy measures and positively contributed in establishing their credibility in the eyes of economic agents, particularly foreign ones.

2) Turkey's EU accession process is defined under the somewhat misleading title of “negotiations.” In fact, there isn't much to negotiate about. It is a detailed and partially sequenced reform program structured over 35 acquis chapters. It is comprehensive and aims at establishing (or restructuring) political and economic institutions deemed necessary for a democratic market economy. As long as EU accession is considered as an objective, this program plays the role of a second, and possibly more important than the first, anchor for Turkey.

The EU-negotiation process, that positively affected AKP government's reformist stance until 2006, almost reversed its role in the following years.⁶⁸ The apparent increase in the

⁶⁶ It should, however, be pointed out that, during the post-crisis era foreign debt of the private sector considerably increased. The corporate sector substituted relatively expensive domestic credits with external funds. This can be considered as a natural consequence of the abundance of global liquidity and the increase in Turkey's credibility.

⁶⁷ See, Özar (2009) for the supporting evidence.

⁶⁸ For a comprehensive discussion of the impact of EU on Turkey's reform efforts, see Keyman & Önis (2007, pp. 25-138). See also Müftüleri-Baç (2005) for the analysis of the stimulation of EU candidacy on Turkey's political and legal reforms.

opposition to Turkey's EU membership in the European countries, coupled with the relatively high social and political costs of the remaining reforms was the main factor discouraging the AKP government from continuing with its reformist strategy.⁶⁹

As a result, the AKP-government, instead of replacing the 2001 Program with a new strategy aimed at launching Turkey on a sustainable development to path, confined itself to adopting the existing one to the new conditions. This was an obvious choice in favor of its choice of stability vis-à-vis “structural reforms. Such a choice makes sense (especially in the short run) since structural reform programs increase the uncertainty perceived by economic agents. This was in sharp contrast to the policies that enhanced AKP's credibility both domestically and abroad. On the other hand, during the 2000s the AKP government defended the benefits of such reforms by establishing strong connections between them and Turkey's EU membership. As the perceived uncertainty concerning EU negotiation process increased, this argument lost its credibility in the eyes of the public. These considerations when coupled to myopia and overly cautious approach of all economic agents, including the economic policy making body, led the AKP government to stick with the stabilization policy. On the other hand, due to extremely favorable global economic environment, Turkey enjoyed the effects of an increase in capital flows to developing countries. Turkey therefore was able to loosen up the constraint imposed by low (and declining) domestic saving rate and sustained quite high growth rates until 2007. The combination of a visibly improved public finance performance, slight improvements in the income distribution and high growth supplied enough ammunition to the AKP to sustain and even improve voters' confidence and the external credibility of its policies.

4.4 The turn of the tide: the 2008+⁷⁰ crisis

The performance of the economy between 2003 and 2006 increased the confidence of economic agents to economic policies. One important consequence of this interaction was the consolidation of the self-confidence of the government. This had two negative effects: On the one hand, as most agents became content with the existing state, the demand for reform lost its importance. Second, the AKP government increasingly became overconfident and intolerant to criticism.

The economy started to give warning signals as early as mid 2006. Although the increase in inflation and financial turmoil in May-June highlighted the vulnerabilities of the Turkish economy, they were largely omitted by the government. Therefore Turkey once more missed the opportunity of undertaking structural reforms when its economy was still performing reasonably well. Turkey began to feel the negative effects of global crisis in the fourth quarter of 2008. It soon became apparent that Turkey was one of the worst hit countries in the world. Its GDP declined consecutively for four quarters. Total loss was 7.9% of the GDP. Around 1 million people lost their jobs.⁷¹ The government was quite late in realizing the exceptional nature of the crisis and the seriousness of its possible effects. When it decided to act it had two options: The first was to launch a fiscal stimulus program as many developed countries did but face the risk of the negative implications of the deterioration in public finances. The other was to stick to existing policy that focuses on economic policy. AKP government chose the latter and it worked reasonably well in the short period.

⁶⁹ In Ersel & Özatay (2007) it is argued that once the uncertain outcome of the negotiation process is taken into account, i.e. EU's absorption capacity, an exogenous factor in the EU negotiation process may not be Pareto efficient and it may make sense for Turkey to shift to a national reform strategy. On the other hand, as pointed out in Ersel & Özatay (2009), the national reform strategy is also not cost free and requires resorting to domestic borrowing instead of taxation to finance its costs. In Saatçioğlu (2010), on the other hand, it is argued that for Turkey the “membership conditionality” lost its credibility due to arbitrary changes that were introduced by the EU.

⁷⁰ + sign indicates that the global crisis was still continuing when this paper is written.

⁷¹ The 2008+crisis was more severe than the one the country faced in 2001. In 2001 GDP declined for a period of three quarters with a total income loss of 7.6% and an increase of unemployment, again, close to one million.

The disturbing memories of the 2001 crisis were also fresh in the minds of banks and incorporated business (i.e. individually significant economic agents). They reacted to the shock that the country received in the fourth quarter of 2008 with extreme caution. Banks immediately curbed their credits and incorporated business reduced their output, investments and employment. Individually insignificant economic agents, on the other hand, had to shoulder the major costs of this shock through job loss and widespread bankruptcies.

The government did not face a strong criticism for not launching a fiscal stimulus program, similar to those introduced in developed and in some developing countries. In fact the government's policy choice that favored stability, relieved incorporated business and banks that place more weight on the negative consequences of higher budget deficits than the probable positive effects of the stimulus program. Individually insignificant players, on the other hand, were again powerless to affect the policy choices of the government as they were in previous episodes. Therefore, they had no choice but reluctantly assumed the costs of the crisis in terms of unemployment and loss of business hoping for some kind of future public support. In other words, individually insignificant agents became a reluctant member of the dominant coalition that supported the government's policy choice.

Paradoxically, the inaction of the government⁷², by reducing the uncertainty perceived by the private agents, increased the credibility of the economic policy. As a result of this, economic activity, after what amounted to a free fall in 2009, recovered quite rapidly and that helped Turkey's external credibility. Containing uncertainty in a global crisis environment was really an important achievement which enabled Turkey to increase its external borrowing considerably. As a result of these developments Turkey's growth rate was exceptionally high in 2010 (8.9%) and in 2011 (8.5%). Turkey, on the other hand, was able to create a significant amount of employment over these years and its unemployment rate began to decline.

It soon became obvious that this was an unsustainable state. After a sharp decline in 2009 due to the effect of global crisis, Turkey's current account deficit increased to 6.4% of the GDP in 2010 and shot up to alarming level of 10% of the GDP in 2011. In 2012 two developments took place. First the government realized that it had no choice other than taking measures to slow down the economy and contain current account deficit. The measures announced in 2012 were in the nature of incentives to promote the production of intermediate goods used by the industry and to increase the domestic private savings rate, which fell to its lowest level ever.⁷³ Second, mostly due to its own dynamics, the economy started to slow down, possibly much more than the authorities anticipated. These developments along with their positive effects on the current account deficit also indicate that it may be much more difficult for the government to sustain the wide popular support it was receiving.

On the economic front, the sufficiency of the "incentive type of measures" for the task in hand is far from obvious. And even if they work their positive effects will be realized in the long term. On the other hand, due to the negative developments at the global scale, especially in the EMU region, economic agents expect new and stronger measures to be taken. These developments increase the uncertainty perceived by economic agents and feed their cautious behavior. As a result of these, the efficacy of the economic policy can be expected to be much lower than it used to be. On the political front, AKP lost some ground in convincing the public over the government's commitment to democracy and respect for human rights. This was in addition to the government's failure in dealing with the Kurdish problem, its

⁷² In this context, inaction should be interpreted as a relative context. The government, in fact, undertook a series of measures, notably to contain the fall in unemployment. Nevertheless, the government undertook such measures by observing a self-appointed tight budget constraint, and gave priority to sustaining fiscal discipline.

⁷³ The Central Bank of Turkey, on the other hand allowed, even encouraged, the depreciation of the TL, in order to contain the fast rising current account deficit.

increasingly nationalistic and autocratic rhetoric, especially after the 2011 elections and its disappointing performance in country's foreign relations⁷⁴

The post 2008 era, therefore, is qualitatively different from what the AKP government accustomed in the past. It was the fear of instability that led to the formation of a grand coalition that supported AKPs economic policies, and it was the satisfactory growth performance that enabled its survival. Increasing tensions in domestic politics and negative expectations concerning the global economy threatens both,

5. Final remarks

The following points are relevant in explaining the politico-economic process that led AKP to gain power in 2002 elections and its success in its aftermath.

1) Turkey made an important decision to shift to multi-party system and private sector led development strategy under a market based open economy framework in 1946 - 1950. Since then these two fundamental characteristics of the starting point, remained unchanged despite some sudden stops, even U-turns, that took place in political and economic spheres. Therefore although the path of politico-economic evolution of Turkey can hardly be considered as stable, its history is still helpful to understand its present state and may even offer some clues concerning its direction in the near future.

2) The AKP experience sounded puzzling for many observers. An Islamic party not only won a general election, but was able to form the government and increased its electoral basis in the following two consecutive general elections. It should be stressed that this was not an easy achievement for the AKP that faced with stiff resistance of the (assertive) secular groups⁷⁵ notably within the judiciary and military.⁷⁶ In fact, a closer examination of the politico-economic evolution of Turkey between 1950 and 2010 reveals that Turkey is far from being alien to the idea of an Islamic party being a major player in coalition governments and hasn't been since the mid-1970s. AKPs exceptional success during its tenure is, on the other hand, much more related to its capability to understand the changing demands of the society, the effect of globalization and its pragmatism in its policy making. It is equally true that, AKP's time saw some historically specific, even unique events such as the demise of the center-right wing parties in Turkey and exceptionally benevolent global economic environment between 2003 and 2008. However, AKP deserves to be credited for using these opportunities and benefitting from them.

3) AKP owes its electoral victories and successful tenure in government not to the novelty it brought in to Turkish political life but to its impressive skill in synthesizing existing political knowledge and in its pragmatism in adopting them to deal with the problems of a fast changing socio-economic environment. First of all, AKP is not a novel type of political party. In fact it, almost replicates, quite successfully, the ANAP of the 1980s, in trying to establish a broad coalition of different interest groups within a single party structure. The ability to form winning coalitions through the participation of different interest groups is neither easy nor can be learned without major experimentation. Turkey's 60 years of struggle in establishing

⁷⁴ AKP's motto in for Turkey's foreign relations was "*zero problems with our neighbors*," which indeed reflected the aspirations of the overwhelming majority of the people. Unfortunately, within few years Turkey found itself sailing towards a state that can be described as "*no neighbors with zero problems*." Obviously it will be unfair to put all the blame on the AKP government since there were unexpected and volatile developments in the region. Nevertheless the government can still be criticized for not being able to comprehend the drastic changes in the region's political landscape and also for portraying an annoyingly overconfident attitude.

⁷⁵ Occasionally, the term "secularist" is used to distinguish the views of these groups from "passive secularism"

⁷⁶ Allegedly, some groups within the armed forces even attempted to remove AKP by resorting to force, from the government and/or political scene. Presently, these cases are on trial in civilian courts. These developments can be considered as clear signs of the following: First, the failure of such attempts indicates that "*going back to barracks*," i.e. ending military tutelage in political sphere also gained strong support within the armed forces. Second, the change in the legislation in narrowing the jurisdiction of the military tribunals is a major achievement towards reforming the judicial system of Turkey. Unfortunately, the way the case is being handled raised a lot of criticism that revealed embarrassing deficiencies of the Turkish juridical system and the urgent need for juridical reform.

democracy seem to affect the behavior of almost all decision makers towards increasing participation in the political process and relying on democratic mechanism in solving conflicts among them.⁷⁷ Second, AKP is not the precursor of a new approach for political Islam. In fact, as is argued in Tugal (2009), Islamic political society, in line with the drastic changes in Turkey's socio-economic structure, was already changing and increasingly became integrated to the system. The major factors behind this integration process are increasing dominance of the market system and democratization.

4) It should however be pointed out that Turkey is still suffering from a serious democratic deficit. Although it can be safely argued that Turkey secured an "electoral democracy," where all segments of the society accept the electoral process⁷⁸ as the only mechanism for political decision making, Turkey still lacks the democratic institutions that any liberal democracy requires. Turkish civil society is far less influential than it should be; the clientelistic distribution of resources and patronage that created party hegemony in daily life still extremely important.⁷⁹

5) AKP gained considerable credibility both domestically and internationally as a reformist party during the first three years of its tenure. However, after 2005 AKP gave signals of an early reform fatigue. The reform process first slowed down, then stagnated and even reversed on a few occasions.⁸⁰ This is rather unfortunate, since Turkey got the chance to launch a comprehensive politico-economic reform program as a pre-requisite for its EU membership. However, the government's increased worries over the social and political costs of the reforms as well as the increased uncertainty concerning Turkey's EU membership, along with the other global developments effectively ended this process, without replacing it a national reform program" A glance at Table 15 which supplements those that are given in Section 1, reveals that Turkey does not have the luxury of stopping or delaying the politico-economic reforms in its agenda. Although it exhibited considerable progress in governance indicators in 2010 Turkey was far from being a well-governed country.

As is emphasized in this work, this unsatisfactory state of the country is not due to lack of reform attempts. After establishing a new starting point in 1946 - 1950 various governments launched reforms program starting with DP in early 1950s, continuing with 1960s, 1980s and 2001 reforms. However, these reforms enabled Turkey only to make modest progress in establishing a sound political and economic institutional basis. There seem to be two major factors behind this failure:

The first is the reluctance of all major players (i.e. not only the government) in accepting and complying with the rules. Launching a new set of political and economic institutions and sustaining them until they are fully accepted was much less rewarding strategy than adopting populist/clientelist approach for the governments. Similarly, and especially for individually significant agents, since the populist/clientelist approach enables them to exercise their power

⁷⁷ Even in the case of Kurdish issue, which can hardly be considered as a success story, there was a significant advance, notably among the civil society institutions to cooperate to achieve a peaceful solution.

⁷⁸ See Aleskerov, Ersel & Sabuncu (2009, pp. 135-176) for a brief survey of parliamentary elections between 1950 and 2007. There is an extensive literature on the analysis of Turkish elections. In Akarca & Tansel (2006) an econometric analysis of all elections between 1950 and 2005 are offered. For a different approach to the analysis of Turkish elections, see Çarkoğlu & Kalaycıoğlu (2007).

⁷⁹ As was expressed in Keyman & Öniş (2007, p. 103) "... Turkey's nascent democratic order has also displayed some serious deficiencies. A neo-patrimonial political culture and clientelistic patterns of interaction involving the state and key segments of society have been identified as enduring features of the Turkish political system. Turkey's performance in the economic and political realms is heavily interrelated. The performance of the democratic regime has clearly been inadequate in terms of generating high rates of growth on sustained basis. What seemed to underlie this inadequate performance was the failure in terms of effectively managing the severe distributional conflicts, with different groups in society aiming to obtain greater share of the "rents" associated with easy access to state resources."

⁸⁰ A typical example is the public procurement law of 2002, which was one of the most important legislative changes aimed at increasing the efficiency of public expenditures by introducing transparency and competition. The law was aimed to set a framework compatible with the EU norms. However, the later amendments to this law, notably those that were made in 2008, were criticized as containing major departures from EU norms. Similarly the government also took a negative attitude towards autonomy of the regulatory authorities (such as in the areas of energy, telecommunication etc.).

to influence policy decisions, they have no reason to support reforms. On the other hand the present level of democracy in Turkey, makes it very difficult or even impossible for the individually insignificant agent to establish coalitions (civil society organizations) to defend their own interests. As a result, Turkey lacked an effective checks and balances mechanism that could help sustaining the institutional changes.

A second major reason is military intervention in the political process. Although the military held power for a relatively short time, the effect of the interference was more enduring. Besides the well known disruptive effects of the military intervention, the mere threat meant that the military was able to establish its tutelage on the political process. In practice, this implies that an institution building process can't gain credibility in the eyes of the public, since it can be terminated abruptly.

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Figure 1: Institutionalized Democracy and Autocracy

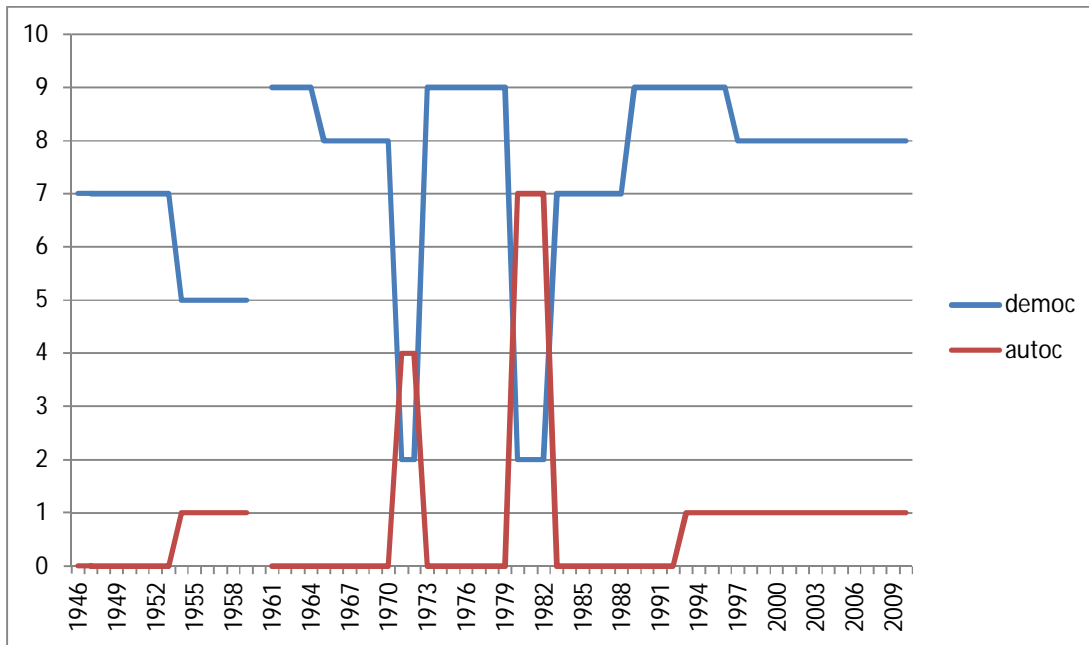


Figure 2: Polity Index

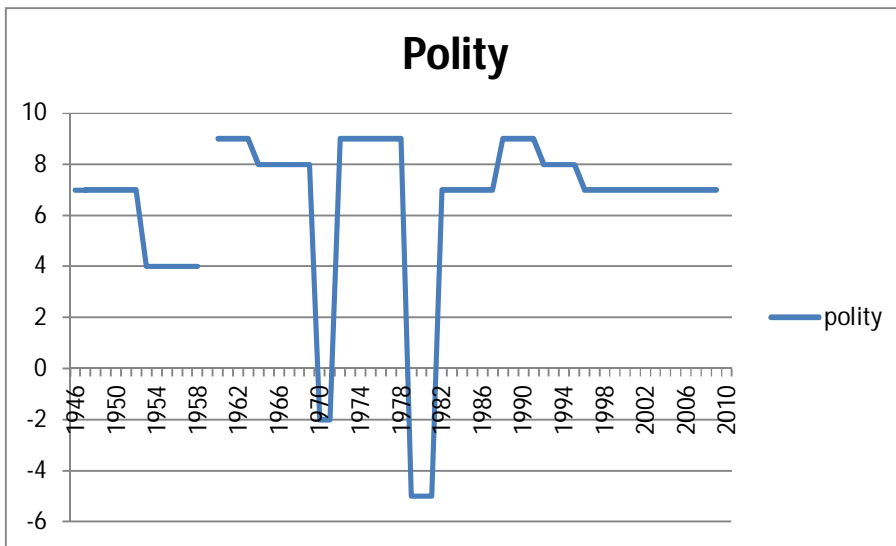


Figure 3: Per Capita GDP Growth

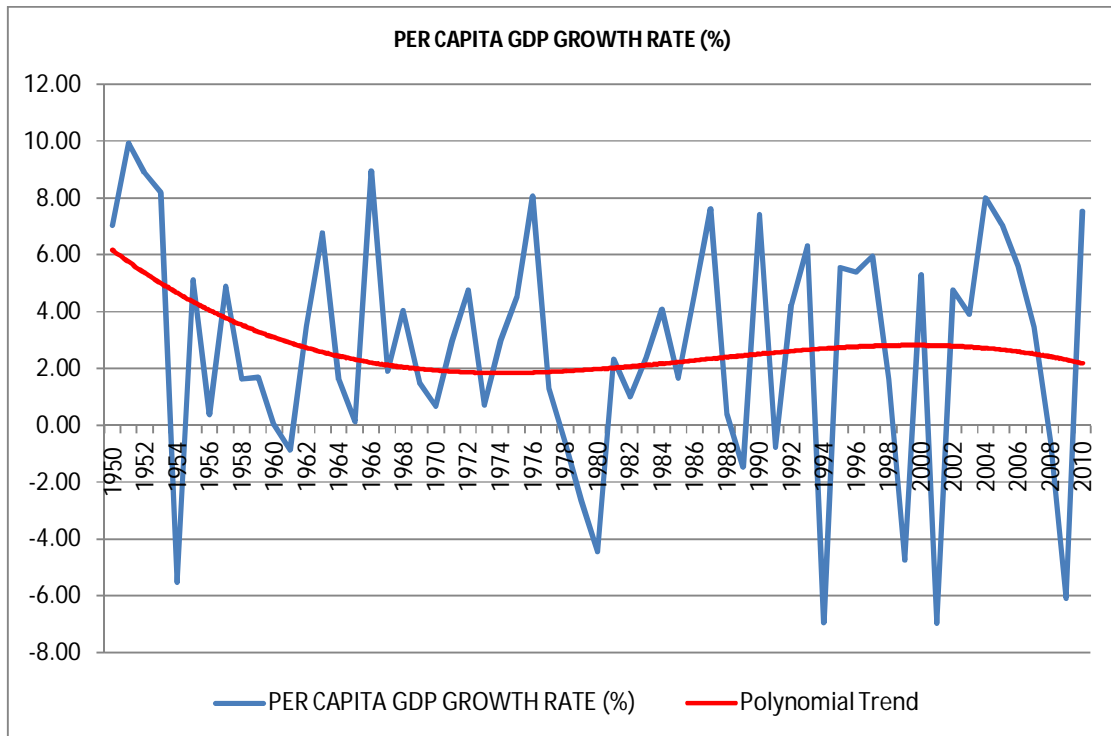


Table 1: EIU Democracy Index Values for Turkey

	2008	2011
electoral process and pluralism	7.92	7.92
functioning of government	6.07	7.14
political participation	4.44	3.89
political culture	5.00	5.00
civil liberties	5.00	4.71
overall score	5.69	5.73
rank	87	88
total number of countries	167	167

Source: For 2008, The Economist Intelligence Unit's Index of Democracy, graphics.eiu.com/PDF/Democracy%20Index%202008.pdf. For 2011, Democracy Index 2011, www.eiu.com.

Table 2: Polity Index and Its Components (Summary Measures, 1950-2010)

	Institutionalized Democracy (ID) Index	Institutionalized Autocracy (IA) Index	Polity Index (ID-IA)
Average	7.35	0.88	6.47
Standard Deviation	2.01	1.63	3.45
Coefficient of Variation	0.27	1.84	0.53

Table 3: Present State of the Turkish Economy: Some Indicators

	Year	Source of Data	Magnitude	Share in Global Economy	Rank
GDP (PPP) \$ billion	2011	IMF	1074	1,36	16
GDP (PPP) PER CAPITA \$	2011	IMF	14517	-	64
EXPORTS (\$ billion)	2010	WTO	114	0,7	33
IMPORTS (\$ billion)	2010	WTO	186	1,2	21
Human Development Index (HDI)	2011	UN	0,699	-	92

Table 4: "Islamic" Political Parties in Turkey

POLITICAL PARTY	Founding Party Leader	Party Life
Milli Ni[zam Partisi [MNP] (National Order Party)	N. Erbakan	1970 - 1971
Milli Selamet Partisi [MSP] (National Salvation Party)	N. Erbakan	1972 - 1980
Refah Partisi [RP] (Welfare Party)	N. Erbakan	1983 - 1998
Fazlet Partisi [FP] (Felicity Party)	R. Kutan	1997 - 2001
Saadet Partisi [SP] (Party)	R. Kutan	2001 -
Adalet ve Kalkınma Partisi [AKP] (Justice and Development Party)	R.T. Erdoğan	2001 -

Table 5: MSP's Election Record

	1973 Elections	1977 Elections
Parliamentary positions won by MSP as % of total	10,7	8,6
MSP's share in total votes in general Parliamentary elections	11,8	5,3
Mayoral Positions won by MSP as % of total	1,9	2,8
MSP's share in total votes in mayoral elections	3,9	4,7

Table 6: RP and MP in Parliamentary Elections (1987-1999)

Election Year	Parliamentary seats won by RP/FP as % of total	RP/FP's share in total votes in general Parliamentary elections
1987 (RP)	-	7.2
1991 (RP)	13.8	16.9
1995 (RP)	2.7	21.4
1999 (FP)	20.2	15.4

Table 7: RP and FP in Mayoral Elections (1987-1999)

Election Year	Mayoral Positions won by RP/FP as % of total	RP/FP's share in total votes in mayoral elections (%)
1984 (RP)	0.9	3.8
1989 (RP)	3.7	8.7
1994 (RP)	12.1	19.1
1999 (FP)	15.2	18.4

Table 8: AKP and SP in Parliamentary Elections

Election Year	Parliamentary seats won by AKP as % of total	AKP's share in total votes in parliamentary elections (%)	Parliamentary seats won by SP as % of total	SP's share in total votes in parliamentarys (%)
2002	66.4	34.3	-	2.4
2007	62.0	46.6	-	2.3
2011	59.5	49.8	-	1.3

Table 9: AKP and SP in Mayoral Elections (2003-2012)

Election Year	Mayoral positions won by AKP as % of total	AKP's share in total votes in mayoral elections (%)	Mayoral Positions won by SP as % of total	SP's share in total votes in mayoral elections (%)
2004	54.8	40.2	1.9	4.8
2009	50.5	38.7	2.7	5.4

Table 10: Shares of Number of Firms, Employment and Value Added in Total As %

EMPLOYMENT SCALE	Share in Total Number of Firms	Share in Total Employment	Share in Value Added
2003			
(0, 49]	99.38	65.0	42.07
[50, 249]	0.51	13.66	18.84
250+	0.11	21.34	39.09
2008			
(0, 49]	99.33	63.39	35.93
[50, 249]	0.55	14.58	19.29
250+	0.12	22.03	44.79

Table 11: Share of Manufacturing Firms in Total Number of Firms (%)

EMPLOYMENT SCALE	2003	2008
(0, 49]	13.32	12.23
[50, 249]	54.95	45.09
250+	57.30	45.10
TOTAL	13.58	12.45

Table12: Per Capita Value Added in Manufacturing (1000 TL; Current Prices)

EMPLOYMENT SCALE	2003	2008	PERCENTAGE CHANGE
(0, 49]	2.78	2.79	0.55
[50, 249]	15.27	13.75	-9.94
250+	21.36	25.07	17.40

Table 13: “Participation Banks” and “Commercial Banks” in Turkey (December 2011, Million TL)

	Participation Banks	Commercial Banks	Banking System
ASSETS	56,2	1119,2	1217,7
LOANS	38,5	621,4	682,9
PARTICIPATION FUND/ DEPOSITS	39,2	656,3	695,5

Table 14: Balance of Payments Developments-Selected Items (2002-2010) (\$ Billion)

	Current Account Balance (“-“ indicates deficit)	Financial Account	Foreign Direct Investment
2002	-626	1172	1082
2003	-7515	7162	1702
2004	-14431	17702	2785
2005	-22309	42685	10031
2006	-32249	42895	20195
2007	-38434	48700	22047
2008	-41959	34558	19504
2009	-13991	9758	8411
2010	-47099	57933	9084

Source: Central Bank of Turkey

Table 15: Turkey in World Governance Indicators (2010)

	2000-GRADE	2010-GRADE	2010 RANK
VOICE AND ACCOUNTABILITY	-0.32	-0.16	43.1
POLITICAL STABILITY AND ABSENCE OF VIOLENCE/TERRORISM	-0.94	-1.0	16.0
GOVERNMENT EFFECTIVENESS	-0.07	0,35	66.0
REGULATORY QUALITY	0.30	0.38	61.2
RULE OF LAW	-0.08	0,10	58.3
CONTROL OF CORRUPTION	-0.40	0.01	57.9

Source: info.worldbank.gov/governance/wgi/index.asp. Grades are defined in the closed interval of [-2,5; 2,5], where 2,5 is the maximum. Rank: Percentile rank among all countries define in the closed interval [0. 100], where 100 is the maximum.