

# **DECONSTRUCTING AND MODERATING THE FUNCTIONING AND CONSEQUENCES OF POLITICAL MANIPULATION OF THE ECONOMY IN TURKEY**

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## **ABSTRACT**

While PBC studies on Western European democracies and the USA have been extensive, the same is not true for developing countries. This applies to Turkey as well, which have been subject to only a handful number of studies, which have rendered satisfactory evidence for the presence of politically manufactured business cycles in fiscal and monetary policy instruments and outcomes in Turkey.

It is true, with the available empirical evidence and daily observation of real life, that political manipulation of the economy is present everywhere. However, the way it functions may be different from one economy to the other. This paper, therefore, aims to take the analysis further by employing an interdisciplinary approach to investigate the nature, distinguishing characteristics, and mechanisms through which political manipulation of the economy, by the use of public funds, are exercised in Turkey. In other words, this study deconstructs the functioning of political business cycles (PBC) and monetary cycles (PMC) in the case of Turkey and identifies the country specific differences in the way political manipulation of economy is exercised. In addition, since political and monetary business cycles represent deviations in the economy are costly. This study, therefore, aims to identify areas where the costs of such manipulations arise in Turkey. Lastly, policy recommendations through which the functioning and costs of political manipulation of the economy can be moderated are presented.

Consequently, the analysis renders support for the micro-level policies pursued by governments to surf on the election cycles, which is based on providing personal gains to attract votes including use of individual, group and region specific micro-policies, use of state economic enterprises, and use of off-budget funds. This does not imply that macroeconomic policies are not manipulated. On the contrary, the natural consequences of the micro-level policies are macroeconomy related, the result of which is the manipulation of macroeconomic variables.

This study finds that political manipulation of the economy have resulted in disequilibrium in the economy by creating crisis and delaying stabilisation in the economy for the personal gains of the politicians. It is demonstrated that such costs in particular can be seen in public finances, inflation, budget deficits and domestic and external debts as well as in currency and financial crises. Despite such manipulations political parties have not been successful to come back into government, which reinforces the welfare or social costs of such manipulations.

This study, therefore, suggests that serious reforms should be undertaken to prevent or moderate crisis and delayed stabilisation in economy due to political manipulation, which should include increased independence of central bank (CBI), economic and institutional reforms, continuous privatisation, enhancing the effectiveness of the operations of the international financial and other organisations, deepening democracy through civil society and constitutional provisions to enhance transparency and accountability. It is suggested that CBI and effectiveness of international financial institutions have already contributed to moderating the impact of PBCs in Turkey.

**Keywords:** Political business cycles (PBCs); Political monetary cycles (PMCs); Functioning of PBCs in Turkey; Distinguishing characteristics and mechanisms of PBC; Economic and social costs of PBC; Moderation of PBCs and their costs in Turkey.

**JEL Classification:** D72; D73; E32; E58; E62; H3; H50.

## **I. INTRODUCTION**

The literature on political business cycles (PBC) suggests that incumbent governments manipulate the economy for political reasons, in particular for winning elections. Accordingly, it is argued that incumbent governments manipulate the economy to create better economic conditions, in the pre-election period, with declining unemployment and increasing growth rates of the economy and inflation to enhance the likelihood of re-election. The theory suggests that post-election periods experience contraction in the economy to offset the adverse impact of expansionary policy in the pre-election period. The main argument is that, due to the myopic nature of individual voters and their retrospective voting attitudes, governments can manipulate the economy to create such conditions as to increase their popularity. The theoretical model of this opportunistic PBC is based on Nordhaus theoretic (1975). This implies that for political reasons the economy is pushed into disequilibrium deliberately; and therefore as Nordhaus (1975) predicted PBC or the political manipulation of the economy has welfare oriented negative consequences to the entire society.

While PBC studies on Western European democracies and the USA have been extensive in terms of its number and a great portion of these studies found evidence for the presence of PBC in those countries, the same is not true for developing countries. In other words, academic interest in studying political economics of developing countries is not common. Indeed, the availability of political and economic data plays an important role in this shortcoming. This applies to Turkey as well, which have been subject to only a handful number of studies, which, as discussed later, render strong and satisfactory evidence for the existence of politically manufactured business cycles in fiscal and monetary policy instruments in Turkey.

Searching and locating empirical evidence is indeed important. However, interpretation of such evidence in order to give further meaning to the results is as important as the evidence. Therefore, it is useful and necessary to employ an interdisciplinary approach to find how political manipulation of economy is practised in Turkey by investigating its nature, distinguishing characteristics, and mechanisms through which political manipulation of the economy, by the use of public funds, are exercised. Because, it is certain that political manipulation of the economy is present in every political setting and country, which is evidenced not only by empirical evidence but also by the observation of daily life. However, the mechanism through which it is exercised might be different and show variation from one country to another. Therefore, pinpointing the distinguishing characteristics of PBC in Turkey as opposed to the politico-economic interaction of the industrialised developed democracies is as important as providing evidence, which renders rationale for this study. In doing so, it attempts to deconstruct the functioning of political manipulation of economy in Turkey whereby it aims to highlight the country specific differences

In addition, since there is evidence for the political manipulation of the economy, and since it is recognised that such manipulations are costly, this study aims to identify the costs of PBC in Turkey. In other words, this paper takes the analysis even further by examining the economic and welfare costs of political manipulation of the economy in the sense of economic costs of democracy

Thirdly, and equally important, recommending the ways through which the functioning and costs of political manipulation of the economy or the disequilibrium created in the economy as a result of political manipulation can be moderated is another important aspect of this study. It is hoped that such policy recommendations could assuage the economic cost of democracy. It is expected that such an investigation provides an integrated understanding of the economy and polity nexus in Turkey.

## II. POLITICAL MANIPULATION OF ECONOMY IN TURKEY: A SURVEY

Elections, and their impact on the economy, are a generally recognised matter in Turkey, and hence general knowledge in the country. Before every election, it is commonplace to see comments in the newspapers analysing the government's economic moves as politically-oriented. There is a particular term, which describes this: *seçim ekonomisi* or the *election economy*, which implies the increased government expenditures and monetary circulation in the economy prior to election. Because, in addition to macroeconomic manipulation, and manipulation of other economic instruments such as agricultural pricing and the prices of State Economic Enterprises (SEEs) produced and distributed goods, the construction and maintaining of new roads, the commencement of many projects such as hospitals, dams, motorways etc. are left to the election period. This directly indicates the political manipulation of the economy, which may not necessarily refer to systematic manipulation of fiscal and monetary policies, but these are part of the dynamic political economy.

The introduction of multi-party politics in Turkey in 1950 is the real starting point for the never ending political manipulation of the economy for political gains as well as of the relatively rapid growth interrupted by periodic intervention. As multi-party politics paved the way for hunting for votes by competing political parties, as any where else in the world. This has resulted in populist policies for private gains or electoral gains of the politicians at the expense of public funds. It is, however, true that political economics of elections in Turkey has not been extensively investigated through economic modelling, and most of the studies researching the voter preferences in the elections do not particularly take into account the economic reasons.

In searching the contributions made on the study of political manipulation of the economy in Turkey, Baslevant *et al.* (2005) reports that traces of such studies can be found as early as in Bulutay and Yildirim (1969) and Bulutay (1970), who used aggregate data to estimate political business cycles in Turkey. Both the studies found reasonable descriptive statistics oriented support for the hypotheses arguing for economic voting argument.

As an earlier study, Krueger and Turan's (1993) rather discursive study focuses on economic crises, which first describe the economic cycle from the beginning of the crisis to the end through disruption in the economic equilibrium for political gain, such as expanding public expenditures, to the adjustment and stabilisation policies aiming to end the crisis. They, then, demonstrate how such cycles coincide with political cycles from military interim governments after a crisis to multi-party competitive politics after economic and political stability enforced by the military. Thus, Krueger and Turan argue that political manipulation of the economy in the form of pre-electoral fiscal manipulation was present in Turkey during 1950-1980 period.

Carkoglu conducted a number of studies in searching the impact of politics on economic performance in Turkey. In his initial paper, Carkoglu (1995) provides evidence for the presence of political business cycles by modelling the economic policy outputs including agricultural support prices, monetary policy, budget deficits, economic growth, inflation and unemployment in a simple multivariate regression analysis from 1950-1994. He concludes that in the post-1950 period, Turkish governments manipulated the economy for political objectives. In a later study, Carkoglu (1997) uses an aggregate vote function to locate the impact of the macroeconomic determinants, such as CPI, real capita GNP and the unemployment rate, on the support given to the governments during election periods from 1950 to 1995. He demonstrates that there is a positive relationship between economic growth and support given to the governing party, while he finds that rising inflation and unemployment rates lead to diminishing support for the government in the elections. In a similar study, Ozatay (1999) attempts to examine the political economic foundations of both inflation and PSBR by combining both of these research trends. His empirical research yields certain degree of evidence for the presence of PBC and provides evidence for the inflationary consequences of these PBCs or the political manipulation of the economy.

The political economics of Turkey, as discussed later, demonstrates that populist policies, pursued by the incumbent governments at the expense of economic equilibrium, are responsible for chronic economic problems including inflation (Okyar, 1978 and Önis, 1997). Although it is not a systematic econometric study, Önis (1997) particularly finds that “populist cycles” or “populist patterns of macroeconomic policy” (1997: 33) have resulted in chronic macroeconomic instability in Turkey. In providing further evidence for the ever growing budget deficits, stemming from political manipulation in Turkey, in a descriptive statistical analysis, Atiyas and Sayin (1998: 55) argue that “the dominant norms off political competition and party leadership structures provide strong incentives for distributive politics that exhibited deficit biases”.

Akyurek (1999) extends the political economy approach to Turkey’s economic problems by researching the impact of myopic governments and politicians and the impact of these on fiscal policy. In other words, he attempts to find the impact of fragile coalition governments in comparison to one party-strong government and their respective impacts on economic performance. He finds coalition governments creating further or increasing the economic problems due to their shorter policy horizons. Thus, he concludes that “fiscal policy is largely determined by political developments” (Akyurek, 1999: 55).

An extensive and multilayered research by Tutar and Tansel (2000) aims to locate the impact of PBC and political oriented institutional structure on budget deficits in Turkey through annual (1960-1996), quarterly (1983Q1-1997Q2) and monthly (1990M1-1997M6) data. They found that when the number of parties in the coalition governments as well as the fiscal authorities increase, the budget deficits grows accordingly. However, they could not find significant impact of the elections n budget deficits in their annual data modelling. They, on the other hand, managed to locate some impact of elections on the sub-items of the budget. Importantly, their monthly data analysis rendered negative but significant impact on the budget deficits. Thus, varying degree of the impact of elections on the economy is located.

While these studies are mostly perceived as part of political manipulation of economy oriented studies, they did not use any of the models suggested by PBC literature. An exception is Ergun’s study, in which she attempts to determine “whether Turkish

governments applied opportunistic fiscal or monetary policies prior to elections in order to increase their chances of re-election during the 1987-1999 period” (2000: 6). By testing a number of models with extensive data sets, her study provides statistically significant empirical evidence for the presence of PBC for the period in question. In particular increases in government expenditures, budget deficits and inflation corresponding to elections periods were evidenced.

Another study within public choice framework of opportunistic business cycles is provided by Kuzu (2003), which attempts to investigate the presence of PBC in Turkey for the period of 1977-2001. Based on autoregressive results by using variable such as money in circulation, *M1*, public sector credits and agricultural credits extended by the Central Bank of the Republic of Turkey (CBRT) and tax revenues, she produces evidence for the presence of PBC in Turkey. However, she suggests that CBRT did not bend to the demand of the political authorities in their political manipulation of the economy, and therefore in particular for the targeted variables such as CBRT balance sheet size, net domestic issues and *M1*, CBRT did not allow political manipulation for the period in question. However, CBRT could not demonstrate same strength in the provision of credits to public sector and agricultural credits. Thus, her results evidence the opportunistic cycles in Turkey.

In a similar study, Teletar (2003) investigates the presence of PBC in Turkey for the period of 1986-1997 within political surfing and manipulative hypotheses framework by using probit and logit estimation. Her results demonstrate that money supply and government expenditures were used in politically manipulating the economy for electioneering. This, hence, provides further evidence for the presence of PBC in Turkey.

In investigating economic performance of Turkish coalition government preceding the 1995 election and the impact of this on the election outcome for the coalition partners in the 1995 election, Akarca and Tansel (2004) find Turkish voters to be myopic as hypothesized by opportunistic PBC theoretic. They found evidence for strategic voting attitude among the voters, according to which junior coalition party could not enjoy the returns from the political manipulation of the economy, nor the centrist opposition parties.

In a more recent study, Asutay (2004) investigates the existence of PBC in Turkey by modelling fiscal and monetary policy instruments within traditional opportunistic Nordhausian theoretic for the period 1980-2002. This provides unequivocally strong evidence for the presence of PBC or the political manipulation of fiscal and monetary policy instruments in Turkey. In another study in the field, Asutay (2005) attempts to locate the presence of politically manufactured monetary cycles (PMC) in Turkey within Nordhausian opportunistic PBC, which provide strong evidence for the existence of PMC or simply PBC in the case of Turkey, and hence supports the Nordhausian theoretic. The results in both the study implicate that incumbent governments in Turkey have used fiscal and monetary policy instruments and outcomes in creating PBC and PMC during election periods in their attempts to *buy votes* for winning elections or to enhance their chances of re-election.

In addition to these politico-macroeconomic studies related PBC, there are many studies attempting to disclose the factors contributing to voter preferences in the sense of ‘economic voting’ modelling, examples of which abundantly available for western democracies in the literature. Among many other social and political issues, a number of

economic variables are included in such studies. For instance, Ozcan (2000) attempts to use statistical modelling to investigate the factors that determined party preferences in the 1987 and 1991 general elections, and the 1989 local election in Istanbul, which includes economic variables amongst others. Although Özcan does not attempt to search for PBC, his economy oriented variables such as employment status and types reveal that there is a weak relationship between the voted political party and the economic gains received and expected from that party. In other words, he finds weak evidence in support of egocentric voting.

Baslevant *et al.* (2005) attempts to reveal the factors contributing to voter preferences in Turkey in their attempt to generalise the attitude of the voters as sociotropic or egotropic in nature. In their research, therefore, they included economic variables. Their result based on a survey conducted in various cities of Turkey shows that the success of the AK Party in the 2002 November elections should be attributed to failure of the incumbent parties in bettering the economic life of the people in the country. On the other hand, Esmer (2002) utilises a data set through descriptive statistics, which include economic related questions too, to find the determining factors of voter preferences in Turkey. However, his study could not find any significant impact of economic variables on the elections.

It should also be stated that contrary to the evidence produced in favour of PBC by the studies mentioned so far, Bildirici and Donduran (2000), in their study covering the period of 1987-1999, could not find support for the economic issues in the preferences of voters in Turkey, but rather they found religious and ethnic tensions playing the main determining roles in the elections covered by their study.

In sum, it is a fact that the number of studies conducted in the field relating to developing countries is rather limited. Turkey, as a developing economy and polity, is one of such countries. While the number of studies on PBC for Turkey is limited, macroeconomy related aggregate level data level studies, as presented above, provide support and evidence for the political manipulation of economy in Turkey due to elections. Such strong results, however, have not been rendered by studies, which have analysed the determining factors of voter preference including economic variables.

While it is important to attempt to locate evidence for the presence of PBCs, it is equally important to find how these take place in Turkey, and what consequences they have had in Turkey, which are explored in detail in the following sections.

### **III. LOCATING THE SEVERITY OF POLITICAL MANIPULATION OF THE ECONOMY IN TURKEY: THE FREQUENCY OF ELECTIONS**

Bearing in mind the various ways of political manipulation of the economy, it is important to find out how often the governments have had the chance of using these instruments in Turkey. Taking into account that elections in Turkey are not merely limited to general elections, implying that there are local elections and other infrequent elections such as two important referendums in 1980s, provides an understanding of the enormity of political manipulation of the economy in the country.

Local municipal elections are set to take place for every five years, and generally are perceived as ‘general elections’ until recently, hence they are a confidence vote for the ruling party in government. In contrast to previous local elections, in the recent local government elections (1995, 1999 and 2004) “voters ... differentiate[d] between local

and national politics and consider[ed] the personalities and the performance of the parties at the local level independently of the broader ideology or program of the national party” (Önis, 2000: 299). Despite such changes in voters’ attitudes, central governments felt the need to use public resources to manipulate local elections as well. In addition, the economic manipulation of politics has to be envisaged at the local government level, as municipal governments can be involved in such *vote buying* activities. Furthermore, from 1961 to 1980, the Turkish political system had a two-tier system: Parliament and the Senate. For Senate the elections were carried out every two years. Thus, these elections constituted a reason for economic electioneering as well. The election diary for 1983-2003, as depicted in table 1, is particularly important for the study of political business cycles, as the crowded election diary especially in 1983-1991 period indicates the potentiality for the creation of subsequent opportunistic political cycles in Turkey.

<b>Elections</b>	<b>Dates</b>
General Elections	November 1983
Local Government Elections	March 1984
Parliamentary by election	May 1986
Local Government by-elections	March 1987
General Referendum	September 1987
General Elections	November 1987
General Referendum	March 1988
Local Government Elections	March 1989
General Elections	October 1991
Local Government Elections	May 1994
General Elections	December 1995
Local Government Elections	April 1999
General Elections	April 1999
General Elections	November 2002
Local Government Elections	March 2004
General Elections (expected)	November 2006 or 2007

**Table 1. Election Diary, 1983-2003**

As table 1 demonstrates in seven years, there were nine different elections. In addition, similar type of frequent elections marked the political life in Turkey in the second half of the 1990s.

Whilst elections inevitably negatively influence the economy, thinking about the use of the public sector and public finances for vote buying in such frequency explains the economic deterioration after 1987. Sayarı (1992: 39) acknowledges this by stating that “in the case of [the] MP [Motherland Party], the need to allocate resources for patronage-oriented government expenditures become all the more pronounced due to the electoral calendar of 1987-1988... The impact of increased public expenditures before the electoral contests of 1987-1988 was reflected in steep rises for most products and services, which defied the government’s rhetoric regarding the immanency of a decline in annual inflation figures”.

The presence of PBC in the case of Turkey and the negative impact of populist policies aimed at manipulating public's perception of the performance of the economy votes is demonstrated and criticised by the TUSIAD (Turkish Industrialists and Businessmen Association) in their 1988 reports: "Whilst it cannot be denied that great economic progress has been made, it is unfortunately the case that these principles have not been strictly followed by Turkey's policy makers ... due to numerous elections held in 1987... [N]umerous legitimate objectives ... have deliberately been sacrificed in order to meet the excessive public sector spending on infrastructure projects and services such as transportation, power, telecommunications, highways which had a special significance for the country's voters" (TUSIAD, 1988: iii). Such political developments and their adverse impacts on the economy such a manner provide a rationale for studying the politico-economic interaction within the public choice paradigm in the case of Turkey.

#### IV. DISTINGUISHING CHARACTERISTICS OF PBC IN TURKEY

Due to the nature of economics and politics in developing nations, it is normal to expect that the functioning of political manipulation of economy in these countries to be different, as opposed to the, the way it is applied in industrialised countries. In other words, "[i]t is interesting to note that, while [politico-economic] interactions are undoubtedly present everywhere, the detailed mechanism seems to be different from one country to another" (Lafay, 1981: 398). Thus, macroeconomic oriented electoral business cycles, found in the industrialised democracies, may not necessarily fit into the case of Turkey. An indication as a support for this statement is that all the studies aimed at finding PBC in OECD countries excluded Turkey in their analyses, despite the fact that Turkey is a member of the OECD. This implies that, due to the developing economy and democracy nature of Turkey, the models utilised by such studies may have limitations in applying to Turkey. Edwards (1994) renders support to this by suggesting that the available literature, therefore, has focused on industrialised countries. Several factors by working interactively prevent PBC to be systematically exercised through macroeconomic policies in Turkey. As a result, micropolicies in the sense of influencing the *egotropic* voting attitude remains the main instrument for the manipulation of economy in Turkey.

Regarding the distinguishing characteristics of political manipulation of economy in Turkey, firstly, theoretical formulation of politico-economic interaction, as presented in the literature, is based on the political and economic structure of the industrialised democracies. For instance, Downsian theoretic for political manipulation is based on two political parties, issue voting and macroeconomic policy options. However, this is a contested issue in the case of Turkey, as elections are contested by more than two political parties and governments most of the time are coalition governments. In addition, instead of using business cycles for electoral purposes micropolitics is preferred. Furthermore, there is a difficulty in comparing the policies of political parties over economic and political issues, as due to centralist orientations as well as the straight jacket imposed by the Kemalist<sup>1</sup> regime, the official regime in Turkey, they seem to be

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<sup>1</sup> Kemalism is the archaic and eclectic political outlook put forward by M. Kemal Ataturk, who was the founder of the Republic of Turkey. His understanding of politics and governance was influenced by the late 19<sup>th</sup> century and early 20<sup>th</sup> century authoritarian and ultra nationalistic political developments in the world, which resulted in a very strong state aiming at political and social engineering of the society. Such a political outlook was later transformed into a political ideology, namely Kemalism, which has been the official regime of the country since the early 1930s and it establishes the demarcation lines in the freedoms of the society. It is a "peculiar hybrid of Jacobinism, nativism and collectivism" (Reed, 1999: 136). Being

suggesting similar policies. Onis (2000: 297) demonstrates such convergences in policy issues among the main parties. Thus, Downsian voting motives seem to erode in Turkish elections.

It should also be noted that the nature of political competition in Turkey does not allow eurocentric voting theories, based on the assumption of policy differences among political parties, to easily fit the Turkish case. For instance, spatial theory assumes that voters choose the candidate who best represents their policy options (Downs, 1957, 38-40). According to spatial theory voting, choice is made on an euclidean policy spectrum. However, due to non-presence of policy options in terms of unemployment, inflation and economic growth in the elections, it seems that such a theoretical assumption is not sufficient to explain voting behaviour in Turkey. In other words, voting behaviour is mostly marked with symbolic politics rather than systematic policy issues, since symbolic politics emphasise emotion and affection, while it objects to euclidean distances on preference spectrums. Consequently, voting behaviour is determined as a function of anger as argued by Lewis-Beck (1988: 65), anxiety and enthusiasm as argued by Markus and Mackuen (1993) and preference direction and intensity as argued by Rabinowitz and Macdonal (1989) or personalising and politicising as argued by Sears and Lau (1983). As regards to Turkey, while anger may have played an important role, for instance in the most recent 2002 elections due to the perpetuated failure of the traditional left and right oriented parties, and anxiety and enthusiasm (due to capture of the leader of Kurdish insurgent movement, namely Kurdistan Workers Party) can be accounted for the limited success of the senior coalition member of the incumbent government in the 1999 elections. Önis and Keyman (2003: 95) in their recent study, evidence this by arguing that “[t]he seismic Turkish election of 3 November 2002 was a peaceful, democratic expression of the deep anger felt by Turkish voters toward a political establishment known more for economic populism, clientelism, and corruption than for democratic accountability”. Özel (2003: 81) rejoins this by stating that “[an important] aspect of the 2002 balloting was the electorate’s anxious search for new options”, who further report that “according to a survey ... nearly a third of the voters said that they had been intent on ‘trying out a new party’”.

Another technical and, hence, theoretic distinguishing factor of PBC in the case of Turkey is the fact that elections take place unscheduled or endogenously. While this creates differences between Turkey, and the USA and France in which countries election date is exogenously determined, it implies similarities with most of the European democracies such as the UK, Germany, Spain and Italy. The theoretical implication of this is that, in the case of Turkey, therefore, the electoral cycles in the fiscal and monetary policy and instruments are not in the form of convex or U-shaped curves.

As regards to PBC model selection, in the case of Turkey, opportunistic variant of PBC has to be utilised. As Schucknecht (1996) argues, partisan models of PBC has difficulties to fit into developing nations, as the left-right spectrum in developing nations do not fit into the political structure of the industrialised Western countries. This is a particular case in Turkey, as one has to ponder to find socialist nature characteristics in left parties and conservative identity in the right parties despite occupying such locations in the

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an authoritarian regime, for instance, it favours a closed *étatist* economic system. Although Kemalism remains the official regime of the country enshrined in the Constitution, Turkey has moved into a liberal open market economic system since 1983. For the economic and political legacy of Kemalism, see also Mehmet (1983) Pollis (1989), Kansu (1997) and Cooper (2002).

political spectrum. It is interesting, for instance, to note that the Republican Populist Party (RPP) in Turkey has more right-wing attitudes than the conservative parties despite identifying itself with the left, as it is at the centre of state politics and proud of party of the Turkish regime. However, as Chortareas (1999) argues, choice of structural adjustment policies adopted in developing countries can be expressed as ideological choices, which can be consistent with partisan politics. This may not necessarily be the case in developing countries either, as in such countries; due to dire economic conditions even left-oriented political parties, as happened in Turkey, may adopt such policies according to the prescriptions from IMF.

In addition to technical aspects, the functioning of PBC in Turkey has its own distinguishing characteristics as follows:

A salient feature in the process of political manipulation of economy in Turkey, however, is the lack of economic issue voting, or the primacy of non-economic issue voting. However, this is not peculiar for Turkey, as developing nations all experience the similar political attitudes. This may even be true for the industrialised democracies, as among others Norpoth (1994) claims that the salience of non-economic issues are regular rather than exceptional when he refers to his findings on the USA that non-economic issues, including war and partisan feelings, are routinely important in the USA presidential elections. Chappell and Keech (1985) provide additional evidence for the importance of political factors on the popularity of presidents. It is interesting to see that Finkel *et al.* (1988) found that high-level regime support in Costa Rica mitigated the impact of economic issues. In Turkey, in addition to localised impact of national economic conditions and important influence of *egotropic* oriented economic gains, partisanship based on symbols and slogans, anti-corruption, ethnicity or nationalism, EU accession oriented and religious and anti-religion campaigns have shown to be effective. This follows the trend in the Latin American countries, as Klenser (1995) identifies that in these countries political issues such as democratisation, human rights and anti-political and economic campaigns have greater impact on the choice of voters in elections. In his attempt to locate the party preferences of individual voters, Kalaycioglu (1999) established that religiosity, formal education, and gender were the factors determining party preferences, which overshadowed the functional impacts of social class and constituency. However, he further observes the non-economic voting behaviour by arguing that “Turkish electoral politics seem to have increasingly come under the influence of traditional and primordial values deeply penetrated by religious and ethnic affiliates [in the 1990s]. Social class appear to play a minimal role. The system has also continued to become more fragmented, polarised and subject to a higher degree of voter volatility than ever” (Kalaycioglu, 1999: 73). To evidence this, Esmer (2002) utilises a post-election survey conducted immediately after the 1999 elections, which led him to conclude that the persistent effects of left-right ideology as the determinant factor in the electoral behaviour. It should also be noted that such polarisation negates the left-right positions on economic issues, and therefore undermines any meaningful utilisation of partisan PBC models.

Such an approach to explain the determinants of election does not negate or repudiate the presence of political manipulation of economy or economic oriented voting. On the contrary, it furthers the understanding of how the functioning of such manipulation can work. To support this, Fiorina (1981), Lewis-Beck (1988) and Powell and Whitten (1993) suggest the inclusion of other factors such as party loyalty or ideology, electoral base, clarity of responsibility and other political matters which are urgent during the

election time, as they believe that such issues, together with economic issues, will be more deterministic on election results.

In terms of functioning, an important dimension and distinguishing characteristic of PBC in Turkey is being exercised through patronage system, which is discussed in details below. Thus, the functioning of PBC in Turkey is based on the provision of benefits to individuals, or groups or regions, in the expectation that they would act in an *egotropic* manner to vote for the party that has provided them with such opportunities.

In contrast to the ways PBC functions in Turkey, literature demonstrates that creation of PBC in industrialised democracies takes place over macroeconomic policies. However, it has been suggested in this paper, several times, that functioning of PBC in Turkey does not take place through macroeconomic policies, and elections, most of the time, are marked with non-economic issues. This is an important difference between political manipulations of economy in Turkey and of industrialised democracies. Thus, unlike industrialised democracies, macroeconomic issues, in particular unemployment, as policy outcomes, are hardly discussed in the elections in Turkey. While politicians may make passing remarks about unemployment during election campaigns among other slogans, even the governments in their budgets hardly discuss the issue of job creation as an employment policy. In the recent budget discussion, the prime minister only spelled out two sentences about unemployment. Somehow, due to the enormity of the problem, general public and government have lost their sensitivities over the issue. Thus, under the enormity of unemployment, including hidden unemployment, governments simply cannot manipulate employment policies, but can only provide patronage-oriented individual specific employment for *egotropic* attitude on the side of the individual who receives such benefits as discussed above.

Inflation, as a macroeconomic policy outcome, is a concern for both politicians and individuals, and therefore it constitutes a similarity between PBC in Turkey and in industrialised countries, as a policy outcome through which economy can be politically manipulated. However, there is a difference in the way inflation is manipulated in the functioning of PBC. Since in Turkey inflation constitutes the soft-belly of the society, governments have to make whatever they can to reduce it or to show that it has been reduced prior to elections. Therefore, governments in the past refrained from increasing the prices of the products and services produced and delivered by the SEEs during election periods. Thus, price increases would be deferred until the election is over. Consequently, the use of inflation in the process and functioning of political manipulation of economy resembles the case of industrialised democracies. However, it differs by the way inflation is used in the process, as in the Turkish case increase in inflation is a post-election issues due to its repression before the election. This contradicts with the way in which inflation takes place in political manipulation in the industrialised countries.

It should be mentioned that an important dimension of economic issue voting is taxes, which has considerable weight in the policy making of political parties and in the decision-making of voters in the industrialised countries. Therefore, governments and the opposition parties, such as in the UK, would particularly determine their tax policies prior to election (and whether they keep such promises is another issue). Thus, tax issues constitute concern and, hence, discussion during election periods in the

industrialised democracies<sup>2</sup>. However, similar to unemployment, taxation is hardly a matter in party manifestos in Turkey. This is because, first Turkish budget discussions are expenditure oriented, and secondly, individual citizens have not come to an understanding to ask questions about “how *taxpayers’ money* has been used by the governments”. In other words, such economic consciousness has not been rooted in the culture of people of Turkey. This could be attributed to the *étatist* cultural and political attitude of the ordinary citizens, who sanctify and do not question the acts of the state. For instance, in the 1950s a Frenchman, Monsieur Poujad, led a political movement in France composed mainly of artisans and small shopkeepers to protest against the imposition of new taxes (the ideology of the party is beyond discussion here). This could only be possible with strong civil society, which lacks in Turkey. Consequently, this constitutes another dissimilarity between political manipulation of economy in Turkey and in the industrialised democracies.

As it is argued in the proceeding section that governments have utilised the resources of SEEs in Turkey to provide patronage oriented favours. In terms of functioning of political manipulation of the economy, industrialised democracies do not have such an instrument available for them. In other words, economic activity oriented public enterprises is no longer a feature of Western democracies since the late 1970s. However, as discussed in a later section in detail, despite the privatisation attempts since the mid-1980s, about 31 companies, or SEEs, are still in operation (and in privatisation portfolio) in various parts of the economic life in Turkey, from tobacco industry to tea and steel industries. Consequently, the existence of SEEs still provides opportunities to use public sector and public finances for electoral purpose, which may not be the case in the contemporary industrialised countries.

The existence of off-budget (extra budgetary) funds, as discussed in detail later, mainly during the 1980s constitutes another rich resource available for governments in Turkey to use for electioneering purposes as discussed above. Despite bringing them under the consolidated budget in the early years of the 1990s, there are still a small number of such funds operating out of budget, which continues to receive earmarked taxes. This again is an important distinguishing characteristic of and source for political manipulation in Turkey, which cannot be exercised in the industrialised democracies due to the principles of accountability and transparency in public expenditures.

In terms of functioning of PBC, governments in Turkey, during the period covered by this study, enjoyed the facilitatory behaviour of the Central Bank, CBRT, which has received a partial independence in 2001. In other words, CBRT, in the past, bended to the demands of the governments in the injection of money into economy to finance the patronage extended to certain sectors of the society for electioneering reasons. This may constitute another distinguishing characteristic of the functioning of PBC in Turkey, as in the most of the industrialised democracies Central Banks operate in an independent manner for many years now.

It is indeed a reality that there is an important similarity between the functioning and operation of PBC in Turkey and in the industrialised democracies; that is the unceasing

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<sup>2</sup> For instance, Allers *et al.* (2001), Benson and Johnson (1986), Besley and Case (1985), Gibson and Stewart (1991 and 1992), Hibbs and Madsen (1981), Izraeli and Kellman (1982), Quinn and Shapiro (1991) and Strate *et al.* (1993) are among such studies which attempt to model either the incumbent governments’ attempt to manipulate the economy through taxation or to find the impact of taxes on political behaviour and on the popularity of the incumbent government.

continuity of opportunist politicians, who are prepared to remain in office through the manipulation of the entire system if necessary. This constitutes an important common point in the politics of each nation and society. However, at the same time existence of large percentage of voters, whose aim is to maximise individual utility in casting their votes, completes the functioning of PBC. This utility could be individual economic, group, regional or partisan benefits, but the existence of utility maximisation would remain at the heart of voters throughout the world, which completed the mechanism of political manipulation with the existence of vote-maximising politicians.

## **V. GENERATING AND FUNCTIONING OF PBC IN TURKEY**

While it is important to establish statistical and systematic econometric evidence for the presence of PBC, it is also crucial to discuss the ways in which political manipulation of the economy takes place in Turkey. Such an attempt to investigate the functioning of political manipulation of economy in Turkey is an important endeavour, as most of the studies available in the literature models the political manipulation of economy within government's opportunistic attempts to manipulate policy options; namely economic growth, unemployment and inflation. While this is true for industrialised democracies, in the developing world the parameters of political manipulation can be entirely different. To evidence this, literature demonstrates the particular ways through which economy is politically manipulated in the developing countries, including the use of social funds. Thus, micropolitics is an important instrument through which political manipulation of economy functions in developing economies, where civil society and democracy have not been fully internalised in the individual preference expression, including the awareness of and reaction to the general state of economy in the voting decision-making.

In the process of using micropolitics in manipulating the economy in the developing countries, thus, the demand side or the citizens are part of this process, in the sense of expressing their demand in terms of individual gains in the election period. Thus, *pocketbooks* or *egotropic* voting, as opposed to *sociotropic* voting based on the general state of the economy, can be an important dimension through which political manipulation of the economy can be exercised by the governments. In such cases, instead of directly manipulating the economic policies and the macroeconomy of the country, incumbent governments aim to influence the pocketbook of certain sectors or groups of people in the society. This is due to the fact that political manipulation of the macroeconomy has national economic consequences, while the use of public funds for electioneering purpose is based on micropolitics or individual level economic impact. However, it should be stated that micropolicies are financed through fiscal and monetary policies and have, in the end, macroeconomic consequences.

The following section, thus, discusses the creation and functioning of PBC in Turkey in an attempt to illustrate the ways and mechanisms in which, and through which, governments engage in the political manipulation of economy in Turkey. However, in doing so this study assumes that government utilises micropolitics oriented policies based on pocketbook voting behaviour, as national economy has always been underperforming and therefore governments cannot rely on the performance of the economy to convince the voters to act in a *sociotropic* manner. As a result, it is strategically fruitful for governments to involve themselves in micropolitics in the sense of a localised and patronage system to *buy votes*.

### **5.1. Use of Individual and Group Specific Micropolicies: Patronage System**

Before delving into the use of the patronage system by political parties for electoral purpose in the case of Turkey, it is important that this notion should be defined. Waldner (1999: 34) defines it as “distribut[ing] state resources, and manipul[at]ing economic outcomes in ways that disproportionately benefit select groups and classes whose strength and support the elite relies on to maintain its rule”. Although Waldner terms this as “popular sector incorporation” in his analysis of political history, the definition directly refers to the use of patronage by the political parties to remain in government.

It is a fact that micropolitics oriented patronage system is an important factor to *buy* votes for the incumbent governmental parties in Turkey. It can therefore be mentioned that the possibility of manipulating some micro-level government policies for electoral purposes might be more likely than the entire manipulation of fiscal and monetary policies.

The patronage system can be traced back to the founding years of the modern republic. When the Republic established in 1923, it inherited mainly an agricultural economy, and therefore, *tithe* was the main source of revenue for the state. The elite decided to remove the *tithe* in 1925 under the disguise of being an old-fashioned fiscal means. However, as Keyder (1979) explains, *tithe* in reality was removed at the demand of the landlords and developing bourgeoisie, as the new Republic was a *bourgeoisie* nationalist revolution. By removing the major source of revenue, the Republic lost its chance of industrial development, as capital shortage in the public and the private sector was the main economic problem. Such a policy implies the establishment of the *patronage* system from the initial years of the Republic.

Under the *étatist* regime adopted by the new Turkish elite from 1929 onward, patronage was extended to other areas and new constituencies. Therefore, the landlords and the new bourgeoisie, around the new regime benefited from such a closed regime. For instance, Bugra (1994) demonstrates the extent of the patronage in the early years of the Republic by revealing how the state directly provided opportunities to certain ‘families’ to establish business. Such patronage creates loyalty and the establishment in its perpetuation counts on that loyalty.

The introduction of multi-party politics in Turkey has provided unceasing opportunities for political manipulation of the economy for political gain. “Given the importance of political patronage in retaining supporters and winning new ones, governing parties in Turkey had often sought to manipulate public policy to influence electoral outcomes” (Sayarı, 1992: 39). Most studies on the subject, therefore, perceive political manipulation of the economy through political patronage (including Sayarı, 1992; Hale, 1981; Özbudun, 1988; Turan, 1988). For instance, Turan (1988: 75) offers examples of the Democrat Party (DP), the sole political party remaining in power from 1950-1960, during its reign in government in the 1950s by stating that “allocating scarce commodities [...] to those [...] who were of friendly disposition to the DP; making hard currency and import quota to business dependent on their making substantial contributions to the party; [...] making government employment available in general only to sympathizers of the party, were some examples of partizan use of resources available to governments”. Sunar (1990) furthers this analysis and provides evidence that the patronage system continues in Turkey and surely cannot be limited with the legacy of DP. He summarises

this tradition when he states that “[n]o coalition that expects to win electorally or govern effectively can afford to overlook the weight of the so-called ‘petty bourgeois’ groups (e.g. the middle peasantry and urban self-employed lower middle class) in Turkey. This means that coalitions anchored in business (center-right) or in labor (center-left) must strike a bargain with the large petty bourgeoisie” (Sunar, 1990: 755).

Patronage system is further expanded and sustained with interruptions in the economy, as after each military coup, when politics was being re-engineered to fit into the requirements of the civil and bureaucratic elite, new coalitions are formed with new constituents by the new political parties. This, as stated by Sayarı (1992: 39), implies the continuous use of public funds. For instance, MP (Motherland Party) was formed after the military coup of 1980 and remained in office for two terms until 1991. It is generally claimed that MP managed to create a large coalition of constituents from various political and social backgrounds. However, that success is attributed to its unceasing distribution of resource allocations through such a large patronage system. “In the case of [the] MP, the need to allocate resources for patronage-oriented government expenditures become all the more pronounced due to the electoral calendar of 1987-1988... The impact of increased public expenditures before the electoral contests of 1987-1988 was reflected in steep rises for most products and services, which defied the government’s rhetoric regarding the immanency of a decline in annual inflation figures” (Sayarı, 1992: 39). While economic liberalisation under MP governments hurt certain sectors in the society, including the agricultural producers and small-scale manufacturers or artisans, “the way Özal [Prime Minister of MP governments] has placated various interests is by directing some of the growth in the economy into compensatory payments to select constituents within a narrow coalition” (Waterbury, 1992b: 210), which, indeed, was facilitated by the election system. In other words, “the liberalization of the capital account and the design of a program for the reduction of import tariffs helped to finance a politically motivated ‘populist cycle’” (Akat, 2000: 267).

In the post-2002 election, after the re-engineering of the political arena by the 1997 military intervention, JDP (Justice and Development Party, AK Party), as a new party, came into power after about eighteen months of its formation. This new party expands the patronage system left from MP by further bringing the periphery into the centre. In other words, it represents the preferences and demands of the Central Anatolia, namely the new bourgeoisie. This implies that the interest of these new constituents have to be served during term in government but at the same time, during elections, additional funds have to be directed to these new constituents to renew the loyalty. The result, hence, is the perpetuation of unceasing patronage system, as “democratically elected governments ... have typically initiated populist cycles in order to establish broad electoral support” (Önis, 2003: 3).

As to the individual or group oriented patronage, targeting social groups with financial means prior to election is mostly exercised over wage earners and pensioners. For instance, a newspaper report demonstrates that the coalition government of 1999-2002 period increased the pensions twice in the election year with a generous additional rise prior to the 2002 election (Radikal, 28.05.2003).

An important group oriented patronage spending is the agricultural sector, and it is a fact that such manipulative policies can easily be observed in the agricultural sector. This is due to the fact that for some agricultural products government, or SEEs, remain to be the major buyer, such as poppies, hazelnuts, tea, tobacco and sugar beet. The government, as a result, determines the purchase prices of such products. If the harvest

period is close to the election, then the agricultural sector is given additional incentives by the government to gain electoral support through higher purchasing prices for these products. An analysis of the trend of the prices of such products can directly reflect such political manipulations. For instance, Birtek and Keyder (1975: 446) provide an insightful study in which they analyse “the transformation of the Turkish peasantry in terms of the effect of economic policy on different segments of the agricultural population”. Their analysis illustrates that the traditional peasant population had stopped their support for the prevailing single party rule in the first free multi-party election in 1950, as the economic policies of the monoparty incumbent governments did not favour the traditional agricultural sector. This illustrates the importance of the role of the state and the impact of governmental economic policies on the voting behaviour of the peasantry or the agricultural sector.

As regards to politics of agricultural price support in Turkey, Gürkan and Kasnakoglu (1991) attempt to explain the variations in the extent of protection provided to the producers of four selected agricultural crops (wheat, barley, cotton, and tobacco) in Turkey. They find indirect evidence for the existence of political business cycles during election years in relation to agricultural price support. In addition, the influence of general economic conditions as well as political orientation on the behaviour of the policy makers is evident in their study. For instance, they found that the agricultural sector tends to be less protected during military regimes.

The discussion so far evidences that the state remains at the centre of resource creation and allocation, which implies that “the costs of being out of power are high” for any political party (Turan, 1988: 104). During government terms, given election promises to constituents have to be fulfilled with such “immense amount of resources in relation to the resource base of society, which [the political parties] can distribute” (Özbudun, 1988: 40). An important issue in such rent-distribution and patronage system is that since coalitions represent broad interests and patronages, governments in their attempt to deliver rents to all these constituents have caused economic instability and crisis as Önis and Riedel (1993) argues. It is therefore important to mention in passing that 1994, 2000 and 2001 currency and financial crises are not merely due to the disequilibriums in the economic and financial system, but the roots of these lies in the political system, which is based on patronage through the distribution of rents by the governments and the state apparatus, as “different groups in society [aim to] obtain a greater share of the ‘rents’, associated with easy access to state resources” (Önis, 2003: 2) due electoral politics.

In conclusion, the use of micropolitics, with the use of public funds for electioneering purpose, is mainly due to the indifference of individual voters in internalising economic matters in their vote decision-making. The non-primacy of economic issues in the voting process, hence, is due to the rigid political differences in the society. In other words, the legitimacy of the politics in Turkey does not directly or fully come from the will of the general public but through various sectors of the society, to which each political party has a particular appeal during elections. This directly refers to the patronage system in the society since the formation of the modern Republic, which sustained the patronage system it inherited from its predecessor, the Ottoman Empire.

## **5.2. Region Specific Micropolicies**

In addition to ‘group-specific’ patronage systems, governments use public funds for electioneering purpose for ‘region-specific’ micro-level policies. Such micropolicies can be in the form of public works expenditures, in terms of commencing construction

works and big projects prior to elections, and increased transfer programmes such as utilising the off-budget or special funds to target certain social groups in certain districts or regions prior to elections, who are vulnerable to political manipulation during election periods.

As part of the micro-level policies, politicians indulge in undertaking minor *pork barrel* projects like local public constructions, which are usually confined to particular districts but commercialised nationally to help the local candidate in the election, at the same time improving the popularity of the party. It is, therefore, very often, so obvious to see in the pre-election period how local governments immediately commence road maintenance activities. The replacement of pavements in particular prior to each election has become a matter of joke in metropolitan cities such as Istanbul. It is indeed common to see that somehow commencements of all large constructions are immediately squeezed into schedule prior to elections. It is a fact that in the 1970s governments even faked such projects with large ceremonies, which had not been continued.

It should be noted that such political attitudes in manipulating the economy are not confined to Turkey. For instance, Kohno and Nishizawa (1990) reveal that government expenditure for public construction increases prior to elections in Japan. In addition to such micro-level opportunistic policies, Robbers and Legg (1991) found that Greek governments manipulated budgetary disbursements for their electoral profiteering.

Consequently, buying votes has been through micro-level and fragmented policy benefits such as administrative favours, including changing the status of locality from town to city administration, financial support for local developments such as the provision of good quality seeds to agricultural cooperatives, and distributive disbursements for public works such as quality asphalt roads, new schools and health centres, and through building personal election machines such as establishing good relations with the important people of the town who could be rich businessmen, religious leaders, or appealing to the ethnic zealots for their votes, such as promising Kurdish rights in Kurdish cities, but demonising the Kurds in Turkish nationalism oriented cities.

### **5.3. Use of the SEEs' Resources for Political Gains: Vote Factories**

The use of economic resources for political gain through patronage systems can be observed in other areas of economic policies as well. Despite recent privatisation attempts, State Economic Enterprises (SEE), or the state owned industrial companies as well as real estates, remain important producers, distributors, banks and sometimes as the largest buyer or the monopsonist. It is, therefore, still normal to hear increases in the prices of steel or iron or even sugar announced by the government.

To understand the magnitude of the state's involvement in the economy, the Privatisation High Council (PHC) reports that "since 1985, state shares in 244 companies, 29 energy generation and distribution units, 22 incomplete plants, 6 toll motorways, 2 Bosphorus bridges, 1 service unit and 5 real estates have been taken into the privatization portfolio". By investigating the nature of these companies, it becomes clear that the state involved heavily in the economic activity from production to distribution and service provision in the sectors such as cement, agricultural oriented chemical industry, petroleum distribution, tourism, iron and steel, textile, sea freight, banking industry, telecommunication, tobacco and alcohol production, *etc.* This renders an

understanding of the opportunities that have been available for governments in providing patronage type of electoral benefits to their supporters.

The existence of SEEs provides additional out of budget spending opportunities for governments to politically manipulate the economy. As Cooper (2002: 120) states, both the general public and the politicians have interests in the running of the economically inefficient and large public sector. This is because, it renders political manipulation of the economy without much suspicion regardless of its economic consequences, but also it provides gains for the individuals through the politically redistributive oriented patronages. For instance, Waterbury (1992b: 206) states that, despite being liberal in outlook, and therefore promising selling of the SEEs, Democrat Party in the 1950s “discovered the political advantages of the public sector and sponsored as a significant expansion of the SOE [SEE] (‘vote factories’ as they became to be known”) and a doubling of the managerial corps”. The use of SEEs in the form of ‘vote factories’ in creating employment opportunities for partisans, using pricing and purchasing policies remained as an important aspect of politically manipulating the economy, after the formation of the modern Republic.

The existence of SEEs, hence, provides another opportunity for governments to manipulate the prices of the goods produced by SEEs for electioneering purpose. In an economy where inflation is a prolonged and continuously increasing phenomenon, the prices of such goods are often increased. For instance, the governments avoid increasing the prices in the pre-election period to prevent any harm being done to their election popularity.

It should be stated that Turkey embraced the privatisation policies in the mid-1980s with the economic liberalisation and structural adjustment policies prescribed by the IMF. The potential consequence of privatisation would have been to reduce inefficiency, through particularly reducing hidden unemployment as a result of partisan policies, and to reduce the resource allocation power of the governments, in particular for patronage reasons. Thus, it would have reduced the rent-creation and distribution activities of the governments. However, Shaker (1995) demonstrates that, due to the impact of military and civil elite, governments have faced difficulties in the privatisation programmes and sometimes they did not show enough enthusiasm for privatisation themselves either. This is related to rent-creation for the elite themselves and for the government and their patronage system, as suggested by Cooper (2002) electorates and politicians have particular interest in keeping large and inefficient public sector. Thus, existence of SEEs provide governments with “immense amount of resources... which they can distribute” (Özbudun, 1988: 40). Despite the fact that the privatisation programme commenced during the MP government, the party did not show enough enthusiasm, as Waterbury (1992b: 210) states “the electoral coalition that has kept the Motherland Party in power does not in any direct sense benefit from the economic reforms” aiming at privatisation, as MP “use[d] public expenditures and the SEO [SEE] sector to shore up its narrow coalition” (1992: 211).

Consequently, about twenty years after privatisation policies were taken up, there are still about 31 of them operating in Turkey, which are included in the privatisation portfolio. Indeed, this represents a sure reduction from over 244 SEEs, some of which are the largest conglomerates in Turkey. However, the perpetuated existence of these facilitates and maintains the governments’ attempts at political manipulation of the economy through the use of the resources of these companies.

#### **5.4. Employment Provision for Political Gains**

The literature indicates that, in addition to inflation and economic growth, political manipulation of the economy takes place over unemployment policies, as PBC is based on the trade-off between unemployment and inflation, which provides an opportunity for governments to exploit during election period, by increasing employment at the expense of inflation. Such an opportunistic political manipulation is conducted through the business cycles.

In the case of Turkey, however, political manipulation of economy does not take place systematically through policy options over business cycles. Therefore, unemployment policy is not a particular policy issue to be considered by public as well as by the incumbent governments. Nevertheless, provision of employment to constituents and potential voters has always remained at the centre of patronage in Turkey. This is conducted through micropolitics in the constituents and not through employment policies.

An example of such employment provision related vote buying activity is depicted in news coverage of Istanbul based daily newspaper *Yeni Safak* (01.07.2002), which claims that the incumbent government was in the process of enacting a by-law through which to recruit new civil servants (another 36,000), while over 392,000 civil servants recruited before the 1999 elections have not fully appointed. Taking into account that this was just a couple of months before the November 2002 election indicates the nature of political manipulation of the economy through reinforcing egotropic voting attitudes in buying votes.

This is a continuous process; as the current government has recently announced that about 100,000 civil servants will be recruited for various governmental departments and they will be appointed within 2006 (*Milliyet*, 23.01.2006; *Sabah*, 23.01.2006). This again can be related to elections; as current government came into office in November 2002 elections, and if they can complete their full term in office, the elections should take place latest in autumn 2007. However, since none of the governments since 1983 constitution could go beyond four-year office term, there might be a possibility that the parliamentary elections could take place in autumn 2006. Regardless of whether the election will be in autumn 2006 or 2007, recruiting such number of civil servants will contribute to enhancing loyalties for the government, and the provision of employment opportunities for such number of people will reinforce the egotropic voting attitudes in favour of the incumbent government in the coming elections. Thus, the economic rationale for job creation has to be judged against the hidden political expectations.

As the discussion implies, this is not a result of macroeconomic policy-making, but rather a localised and electioneering oriented attempt of the government to increase its votes in the election. It should also be noted that in the provision of jobs, local governments and local SEEs are the main areas of employment for the loyal voters or party members. It seems that most of the appointments and petitions with the local MPs, in their parliamentary offices, is over job opportunities.

#### **5.5. Use of Off-Budget (Extra Budgetary) Funds**

Off-budget funds were originally created in the 1970s to finance the difference occurring in petrol import bill due to exchange rate differences. However, throughout the 1980s a

number of such funds were created to provide the government with flexibility to respond to the economic needs. While the creation of such funds outside budget and away from parliamentary accountability contradicted with the budgeting principles in Turkey, it provided a golden opportunity for the pragmatist governments in the 1980s.

Throughout the 1980s, governments created and operated such funds through by-laws with specific objectives and by targeting specific groups or areas of economy. In the case of certain funds, a percentage of certain taxes were earmarked to finance them, which were additionally levied on taxpayers. In most cases, funds were directed for helping or supporting a particular social and economic group or even for a specific industry that was believed to have national importance. Among these funds, the largest were Fund for Mass Housing Project; Social Solidarity Fund (SSF), which aimed to provide hardship funds for those who were facing difficulties; Fund for Supporting the Civil Defence Industry, a sector of national importance; and Apprenticeship Fund, which aimed at helping artisans to employ apprentices. They, hence, were created to finance specific economic and social services. As they were operated outside the consolidated budget, it was claimed by opposition parties that no one knew the number of such funds, the magnitude of the funds accumulated in them and how such funds were utilised. The opposition in the early 1990s claimed that the number of the funds were about 125.

To give an understanding of the enormity of resources accumulated in these funds, the total amount of off-budget funds was 1.3% of the GNP in 1984, which increased to 7.49% of the GNP in 1988. This clearly indicates the enormity of funds were available for political patronage in the country. Since the governments in the early 1990s were forced to bring these funds into the accountability system of the parliament, they were internalised in the consolidated budget to fit to the unitary nature of the budget. However, a small number of them still remain as off-budget activity with about 0.15% of the GNP. Thus, there has been an enormous reduction in the magnitudes of such funds. However, they provided and still provides in a smaller magnitude with government an opportunity to utilise additional funds for electioneering.

In the past, in particular in the 1980s, governments were constantly accused of using these funds for partisan reasons through patronage systems. This is because, such funds had become sources of vote buying mechanisms, and therefore funds were distributed to the earmarked social groups with patronage oriented political activities. This was made particularly easy, as the decision to allocate the funds to the deserved individuals were left with local governors, who are the agents of the government. This gives an understanding of the partisan opportunities.

In concluding, regardless of political orientation, “successive governments have found ways of undertaking substantial spending outside the budget” (Akat, 2000: 270) for their electoral ambitions and populist patronage spending. Therefore, the official budget deficits have never reflected the true magnitude of the deficits in the country. It is also important to note that having such probably undermined the performance and the success of fiscal and monetary policies, as these policies failed to take into account the funds accumulated and distributed by these funds.

## **VI. LOCATING THE REASONS OF USING MICRO-LEVEL POLICIES IN TURKEY: NON-PRIMACY OF ECONOMIC ISSUES IN THE ELECTIONS**

The preceding section attempted to illustrate the ways through which and with which political manipulation of economy takes place in Turkey. The politically induced

movements in the business cycles during election periods, thus, are result of mostly micro-level group, region and employment oriented patronage activities of the incumbent governments. While this is indeed related to the political structure of the society where state and governments have always found their political legitimacy through patronage system, there might be some other institutional and behavioural factors which might explain the use of micropolitics as opposed to more systematic macroeconomic policy making. The following discussion, thus, attempts to shed light upon the reasons of reliance of governments to use micropolitics instead of systematically manipulating the entire business cycles, or on the non-primacy of economic issues in the elections.

One of the main factors, counted on, for the reliance of governments on micro-level public policies, is that in Turkey, as in other developing democracy countries, party platforms do not function as the primary basis of voting decisions. Therefore, as Ramseyer and Rosenbluth (1993: 20-21) enunciate, elections are usually personalised rather than party or policy centred in such countries, including in Turkey. Consequently, using micro-level policies, targeting certain social groups can be more attractive as an instrument to *buy* votes.

As the preceding section argues, the patronage system is an important aspect of electoral manipulation in Turkey. It is a fact that in the periphery, the patronage system, personal networks and other informal variables mainly determine electoral outcomes. Therefore, it is not common to see political parties come up with substantiated election manifestos in which they may provide some evaluation of their economic, political and social policies. In other words, official party platforms or policy proposals, if any, play only minor roles in the economy aimed at the business sector for support. This implies that elections take place without any policy competition and usually political issues lead election campaigns and economic issues are touched on solely as general slogans. The reason for this is the failure of each political party and hence governments in achieving an overall economic success in the country. Consequently, political parties strategically find it in their favour to exploit the political issues more often than economic issues.

Since the search for democratic liberal values including ethnic, political, religious freedoms and justice are so strong in society, governmental popularity, or the popularity of any other political party contesting in the elections, is conditioned by non-economic factors, namely by political issues. Political issues such as the ending of corruption, suppressing ethnic demands, Turkish nationalism, laicism vs. religious freedoms, capturing the leader of the Kurdish liberation movement and so on, have led the election campaigns. This does not mean that voters do not pay much attention to economic issues. For instance, throughout the 1980s economy-oriented Prime Minister Özal made the elections be contested on economic issues, as he promised to transform the economy of the country. As a result, his economic-oriented campaigns helped him to win two elections. It should be acknowledged, however, that his political years in Turkey were marked by a post-military *coup d'état* period with limited political freedoms as it aimed to *de-politicise* society.

The non-primacy of economic issues in elections in Turkey can, further, be explained by the need of society to embrace political transformation to ensure democratic institutions and human rights to prevail in the country. The global trend in the transformation of societies prior to 1980 indicates that economic factors played an important role, as economic success renders legitimacy to the system, as argued by Lipset (1959). In reinforcing such an argument, Linz (1978) suggests that such a success provides credibility. Thus, the general view was that economic success brings about political

stability in the country. Accordingly, the *full-belly* thesis gives primacy to economic well-being over political rights and freedoms (Howard, 1982; Asutay, 1998), which was propagated by the right-wing politicians of the developing world until the 1990s. However, as Asutay (1997) surveys, this fallacy has been contested by many including Sen (1994 and 1999) and Howard (1982), as the post-1990 world demonstrates that *full-bellies* requires political participation and civil liberties, while gaining civil and political rights does not require the relinquishing of economic rights<sup>3</sup>. Similar to the trends in Latin America and the East Asian countries, the nature of *étatist* politics in Turkey emphasised Westernisation and economic development over political liberalisation in the country, despite the fact that promised economic progress could not be delivered either.

In addition to all these reasons, there exist institutional constraints in macroeconomic policy-making. In particular, the relationship between politicians and bureaucrats is paramount in the structure of macroeconomic policy-making. Despite the expected power of the elected politicians, due to the *étatism* and politico-social engineering nature of the state, bureaucracy remains autonomous and powerful in the economic sphere as well, which limits the policy options available for politicians. While the extensive role of state in the economy can be accounted for this power, the political regime's attempts to control the country beyond governments help the civil elite and military bureaucracy not to relinquish that power. In other words, "traditionally autarchic and reformist character of the bureaucracy" (Uluatam, 1989: 196) keep its grip on economic power as well. Uluatam (1989) explains that as a remnant of the Ottomanistic tradition "the Turkish bureaucracy in general and the Ministry of Finance in particular have always carried a self-appointed mission in administering the country". He, therefore, argues that such a powerful bureaucracy "has occasionally been a deterrent rather than a stimulant force for economic modernization" (Uluatam, 1989: 196).

Despite changes in the structure of the bureaucracy in the post-1980 Özal era, "[t]he critical element in fiscal decision-making in Turkey has generally been the higher-level government bureaucracy" (Uluatam, 1989: 196). Akat (2000: 280) for instance, blames the bureaucracy for the prolonged inflation in Turkey for "its behavioral constraints and attitudes". Thus, regardless of recent changes, the Turkish bureaucracy assumes a customised autonomy in policy management, in particular fiscal policy management, as portrayed in the British sitcom, *Yes Minister!* This creates constraints on the politicians to systematically manipulate fiscal and monetary policies for their electoral ends, which necessitates the use of options of micro-level policies.

Another important reason for the non-primacy of economic issues in the elections is also related to the similarities of the policy positions of the political parties as regards to the economic priorities. After thoroughly examining each political party's stand for economic and political matters, Önis (2000: 296-298) states that "there seems to be much

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<sup>3</sup> It may be true that some relatively authoritarian states such as Singapore, South Korea, under military rule, and more recently China have had faster rates of economic growth than some less authoritarian states such as India, Costa Rica and Jamaica. The overall picture, however, is much more complex than such isolated observations might suggest. Statistical and econometric studies provide little support to the view of a general conflict between civil rights and economic performance. For instance, Pourgerami (1991), Dasgupta (1993), Bhalla (1994), Azam (1994) and Farr *et al.* (1998) amongst others offer substantial evidence to suggest that political and civil rights have a positive impact on economic progress. Others find divergent patterns, while others still argue that on the basis of the information so far obtained "an optimistic interpretation of the overall results would thus be that democracy, which apparently has a value independent of its economic effects, is estimated to be available at little cost in terms of subsequent lower growth" (Helliwell, 1994: 247).

less disagreement on economic issues in the 1990s compared with earlier periods. In the past, significant differences existed between the right-of-center and left-of-center parties concerning the role of the state in economic affairs and the issue of whether or not to privatise the large state enterprise sector. Now almost all political parties appear to be in favor of privatisation and the market economy". While the impact of globalisation can be accounted for such convergence in economic policy priorities of political party platforms, the *étatist* nature and the dominant civil and military elite, which can deny the political process to any party that falls out of the determined spheres, should be mentioned as the main reasons.

The convergence of policies at least on official lines is, thus, the result of the nature of political regime in Turkey, which does not allow pluralism in the policy options as expressed in the Constitution. "The centralized state, and a strong commitment to Kemalism, restricts the sphere of action of groups or parties" (Önis, 2000: 304). Therefore, the range of policy options among the parties is rather limited. In other words, as Önis (2000: 306) enunciates "given the parameters set by the official state ideology and the international financial community" parties when come into power they face a real dilemma of following their own ideological stances. This provides additional rationale for using micropolicies for electoral manoeuvre and success.

Among other reasons, which prevent primacy of economic issues to be determining factor in the elections, lack of civil society should be accounted for failing to attain Western style functioning electoral politics. Consequently, contrary to public choice assumptions of seeing the polity as a political market where transactions of selling and buying competing policies take place, in Turkey most of the time the afore-mentioned issues and organisational strength of political parties and candidates may determine election results. This does not mean that the incumbent party withholds from manipulating the economy, as such matters involve the use of public funds for electioneering reasons.

## **VII. CONSEQUENCES OF POLITICAL MANIPULATION OF ECONOMY: LOCATING THE ECONOMIC COSTS OF DEMOCRACY IN TURKEY**

The empirical and discursive findings of the presented studies on Turkey demonstrate that governments are involved in the political manufacturing of business cycles by use of fiscal and monetary policy outcomes. However, this paper suggests that the form with which the political manipulation of the economy takes place demonstrates differences.

It is also important to note that, in creating PBC, politicians use public funds for personal gain in an inefficient manner. It is inefficient because, the allocation of public expenditures is made according to the fear of losing the approaching elections, and not according to its merits or priorities, but with the simple purpose of getting more votes. In other words, political priorities replace economic ones in the economic realm. This, in return creates economic and social costs to the society, which is the second main issue aimed at to be discussed in this study.

The cost of PBC is indeed an issue that Nordhaus (1975) touched upon initially, as he predicted that the short-term exploitation of the Phillips Curve trade-off between unemployment and inflation for political gains have undesirable long-term impacts. He states that because the short-term self-interest of political parties results in sub-optimal consequences in the long-term (Nordhaus, 1975: 178), due to economic inefficiency in the allocation of resources. Consequently, the long-term economic prospect of the

society is harmed. In sum, opportunistic attitudes of the politicians results in the inefficient allocation of resources.

The consequence of populist cycles or PBC or election-oriented business cycles, created by the governments for electoral purposes, can be identified as the *economic costs of democracy*. Keech (1995) addresses the consequences of democratic institutions in relation to economic performance in the form of the economic costs of democracy. The root of this economic cost of democracy is related to the nature of modern state. As Seldon (1991: xiii) identifies the modern state has become “the vehicle for ‘massive transfers of wealth’”, and politicians use such wealth to offer short-term benefits to the voters despite the long-term adverse consequences of such policies on the citizens. Because, as public choice theory assumes, politicians and bureaucrats seek to maximise a party or individual welfare function rather than the social welfare of the society. In explaining the economic costs of democracy, Seldon (1991: xiv), therefore strongly argues that “[i]f democracy permits or incites temporary majorities to legislate for immediate effect, irresponsibly indifferent to the long-term consequences, it is at the mercy of the cynical politics of *après nous la déluge*” (emphasis in original). Consequently, in supporting Seldon, Holcombe (1985: 4), following Bowen (1943) Downs (1957) and Black (1958), concludes that “a representative democracy does not allocate resources in a way that serves the best interests of its citizens”. This, hence, implies the costs associated with political manipulation of the economy.

The long-term consequences of PBC are particularly important in the case of Turkey. Because it has a very fragile economy, which is sustained by continuous IMF prescribed austerity, stabilisation and structural adjustment programmes. However, due to elections, governments undertake populist economic policies during election periods to please the electorate, as they are assumed to be myopic and influenced by pre-electoral economic boom whether nationally or individually. Such populist economic policies, for instance in the form of expansionary fiscal policies, results in the breakdown of the austerity or structural adjustment policies adapted with the sole objective of helping the economy to move out of crisis. Consequently, due to electoral profiteering, the economy runs into another crisis before the previous crisis is overcome. Thus, economic problems prolongs in the country and the economy faces chronic problems, such as inflation. Önis (1997: 33), therefore, enunciates that the underlying causes of the macroeconomic instability in Turkey are the “populist cycles or populist patterns of macroeconomic policy”. He further associates “periodic fiscal crises of the state [which] have emerged as persistent feature of the Turkish economy” (2003: 2) with political manipulation of the economy since the multiparty politics introduced in 1946.

An example of such populist policy for electoral reasons is governments’ policies towards goods and services produced and distributed by the SEEs. As mentioned previously, due to chronic inflation until recent years, governments had to increase the prices of such goods to match increasing costs. However, due to electoral concerns, such price increases are deferred in the election months, which in the end “cripples public finances” (Cooper, 2002: 117) as they are met with budget deficits. In addition, Okyar (1978) and Akat (2000) attribute the reasons of ever-increasing inflation in the country to such irresponsible populist policies, as crippled public finances, then, results in high inflationary path in the country.

A closer example in this direction, in the case of Turkey, is the November 2002 elections, prior to which, as mentioned previously, government enacted a by-law with which the coalition government created thousands of civil servant posts for various governmental

departments. In addition, as reported in Istanbul based Turkish daily *Radikal* (28.05.2003), against the opposition of the State Planning Organisation (SPO) and IMF, prior to November 2002 election government made additional increases on pensions. The newspaper item states that, according to the SPO estimates, this has increased the social security expenditures of these institutions by around 100% in the first quarter after the election in comparison to the same quarter in the previous year. The news item reports that, due to such increases, the budget deficits of the state pension institutions was expected to increase by around 50% in 2003.

It is such populist policies that contribute to macroeconomic instability in Turkey, which then cripples public finances. For instance, Akat (2000) argues that it was the populist cycles, which were financed by the liberalization of the capital account and the design of a program for the reduction of import tariffs that resulted in the 1994 currency crisis. The economic cost of such a political manoeuvre was the reduction in the GNP of the country of about 6%. Önis supports this by arguing that, due to the restoration of democracy in the 1980s, the populist pressures for redistribution was increased, and by responding to this, governments created fiscal crisis in the late 1980s and the early 1990s. "Indeed, fiscal disequilibrium was an important cause of the financial crisis of 1994 in Turkey" (Önis, 2000: 290). The same explanations are true for the 2000 financial and 2001 currency crisis, as weak coalition governments attempted to please too many different segments of the society.

While it may be argued that patronage system is the result of the pressures for populist redistribution due to the appalling state of income and wealth distribution in the country, "populist redistribution has been increasingly inconsistent with the goals of achieving and sustaining high rates of growth and successful integration into the global economy" (Önis, 2000: 290). This is due to the fact that such redistribution is not through a systematic policy coordination, but due to sporadic individual and group oriented patronage oriented favours. As a result, such populist redistribution attempts result in higher inflation and fiscal crisis. "This tends to generate a fragile, stop-and-go pattern of economic growth based on inflows of short-term speculative capital" (Önis, 2000: 290).

It should be noted that, despite the populist policies and manufacturing policy cycles in the economy with the objective of winning elections, the incumbent governments in the post-1980 period have not been successful in returning to office in the post-1980 period, except for the 1987<sup>4</sup> election and one of the coalition partners in the 1999<sup>5</sup> elections. Thus, manipulating the economy does not *only* create economic costs, but also has not been successful in bringing political success for the incumbent governments. This implies that the governments undertook "populist policies without paying the short-term price for them in financial markets" (Akat, 2000: 271) or "without having to worry about the immediate reactions of the markets and public opinion" (Akat, 2000: 280). The result, as the poor economic performance until recently indicates, enormous economic costs due to political manipulation of the business cycle. In other words, "populist cycles and the ensuing crises have been costly in the sense that they have reduced the rate of growth below what would otherwise have been the case. Moreover, ... populist cycles have been associated with high, rather than low, inequality" (Önis, 2003: 2).

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<sup>4</sup> Anavatan Partisi (ANAP) namely the Motherland Party (MP) led by Turgut Özal won the election for second term in 1987 after its landslide victory in 1983.

<sup>5</sup> Demokratik Sol Partisi (DSP), namely Democratic Left Party (DLP) led by Bulent Ecevit became first in the 1999 election after being a senior partner in the interim coalition government formed under the guidance of the military elite in a new fashion of *post-modern* type coup d'etat in 1997.

It is true that such democratic costs, as enunciated by Önis (1997), is more in countries such as Turkey, which has not completed the full formation of democratic institutions. For instance, large-scale patronage oriented public expenditure prior to an election is not an issue in Western democracies, as this involves political risks and discriminations. Since such concerns and institutions are yet to be established in Turkey, the result is increased inefficiency and macroeconomic instability through micropolitics.

## **VIII. POLICY RECOMMENDATIONS TOWARDS MODERATING THE POLITICAL MANIPULATION OF ECONOMY**

This paper has so far illustrated the consequences of politically induced business cycles, or PBC. It is clear that it moves the economy into disequilibrium, and creates inefficiency by disturbing the priority of the resource allocation from economic necessities to political priorities. Thus, it has welfare consequences for the larger society, whilst group specific or region specific vote buying activities may make some voter better off at the expense of the general society. It is, thus, crucially important that PBC or political manipulation of the economy should be moderated or smoothed to reduce the economic cost of the democracy in Turkey, where economy is fragile and runs from one crisis to another in a perpetuated disequilibrium. This section, hence, attempts to propose policy options to moderate the intensity of politically induced business cycles.

### **8.1. Central Bank Independence (CBI)**

In reducing the economic costs of democracy, the pragmatic options such as the provision of Central Bank (CB) independence (CBI) can be adopted to prevent the manipulation of the economy, as illustrated by literature, CBI can have direct impact in reducing inflation, and hence in smoothing or moderating the impact of PBC.

Regarding CBI in Turkey, after the financial and currency crises in 2000 and 2001, one of the policy options adopted is said to be the CBI. However, such a claim needs to be qualified, as there are various measures available to gauge the independence of a CB.

A close scrutiny of the by-laws of the CBRT indicates that it does not hold a total independence, but what can, possibly, be called, a partial independence. Such independence is limited to instrumental and functional independence since 1970 which, after the crises in 2000 and 2001, extended into the removal of short-term advanced credits given to the Treasury Department and the removal of direct or indirect credit usage right to public enterprises from CBRT in 2001. This implies that public sector deficits will no longer be financed with credits and advances from the CBRT. These two issues have been widely used as the main criteria of independence of the CBRT. In addition, confining the CBRT to the monetary policy issues and removing the duties unrelated to it from its portfolio and establishing the demarcation lines between the duties of the CBRT and the Treasury Department has strengthened the move towards independence. An important change in this direction came with the signing of a protocol between the CBRT and the Treasury Department, which transferred to the CBRT the power and responsibility of setting short-term interest rates.

In evaluating the independence of CBRT, under the light of the relevant literature, the following conclusions can be derived:

- (i) Administrative independence: Appointment of the Governor and Board members are made by the government for five years, while appointments to Monetary Policy

Committee and Central Bank Council are made by the administration of the CBRT for three years.

- (ii) Independence of functioning: CBRT has autonomy in determining its budget, the salaries of its staff, and the expenditures of the bank.
- (iii) Objective independence (stated objectives of the bank): CBRT cannot determine its own objectives, as it is determined by law, which is establishing price stability<sup>6</sup>.
- (iv) Financial independence (limitations of lending by the central bank to the government and availability of subsidized credits): This was the main cause of change in laws in April 2001, which removed the provision of advanced and subsidized credits to government and public sector agencies.
- (v) Policy and instrumental independence (what is being targeted): CBRT is recognized to have instrumental and policy independence in terms of directly and independently determining monetary policy and monetary policy instruments towards ensuring price stability in the economy.

In sum, CBRT has financial independence, policy and instrumental independence and independence of functioning, but it still does not have administrative independence and objective independence. Despite the mentioned changes, which are important steps towards independence, political influence may still be exercised over CBRT, as the Governor of the Central Bank is still appointed by the Cabinet, and the Treasury Department, which is a Cabinet Department, appoints the board members of the Central Bank. This leaves huge room for the government to exercise its influence over the CBRT and its policies. As a result partisan policies could be followed by the CBRT, which will undermine its (partial) independence<sup>7</sup>. In addition, CBRT does not have objective independence, as price stability is determined, exogenously, by law. Such areas create concern for the independence of the CBRT in terms of continuous economic costs of democracy.

On January 18, 2002, K. Dervis, then the Minister in Charge of Economy, and S. Serdengeçti, the Governor of CBRT (until 15 March 2006), in their mutual communication with H. Köhler, Managing Director of the IMF stated that “*In May 2001, we took the first crucial step toward inflation targeting, by granting the CB[R]T full operational independence to pursue the goal of price stability.*” Throughout the turbulence in financial markets of the past year, we believe that CB[R]T independence has helped stabilize monetary policy, keeping inflation from spiraling out of control. Looking ahead, we will ensure that

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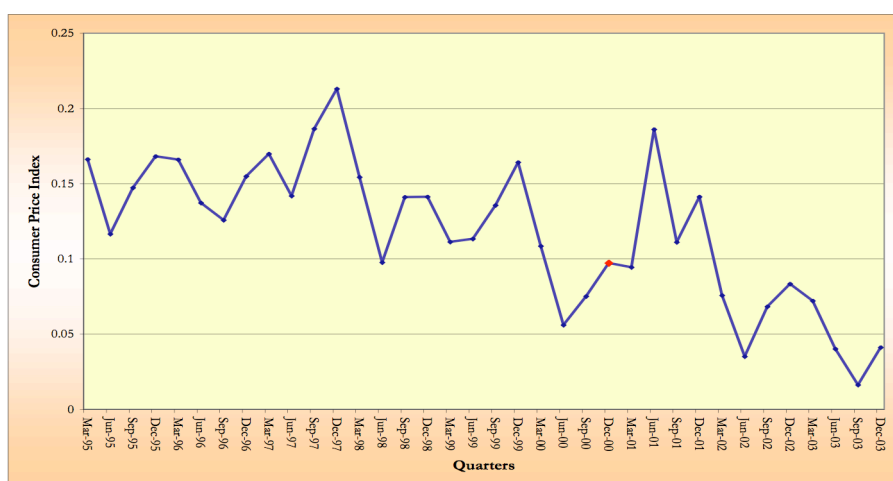
<sup>6</sup> This is depicted in a banner on the CBRT website’s main page (<http://www.tcmb.gov.tr>)

<sup>7</sup> For instance, the current governor of CBRT, Mr Sureyya Serdengeçti’s term is to end on 15<sup>th</sup> March 2006, who was appointed by the previous government in 2001. The current government did not extend his office term by another five year, which is possible by regulation. This could be due to the fact that he may have been perceived as the bureaucrat of the previous government, which may be understood by the unrevealed differences between him and the government. However, as the newspaper reports suggests government will appoint someone closer to their orientation. For instance, it is expected that Dr E. Basci, the deputy of Mr Serdengeçti, to be announced as the new Governor of the CBRT, who is a close friend of Minister in charge of the economy and the chief negotiator to the EU. This might be expected to undermine the independence of the CBRT, which was particularly emphasised by Mr Serdengeçti as the major reason of success towards stabilisation in the post 2000 and 2001 currency and financial crises. Thus, it might be the case that government has preferred someone as the new Governor, who could work in line with the demands and policies of the government, which was not the case with Mr Serdengeçti. Taking into account the coming election either in autumn 2006 or sometime in 2007, it will be interesting to observe the developments in CBRT’s (partial) independence and its economic and financial policies and to see if CBRT remains (partially) independent or follows partisan policies.

any new laws or regulations do not undermine the independence enshrined in the CB[R]T law. With confidence now showing signs of improving, the CB[R]T's independence will play a crucial role in delivering a significant and sustained reduction in inflation" (Dervis and Serdengeçti, 2002; emphasis in original). Thus, the independence of CBRT is a highly internationally publicised issue and is propagated to be one of the most important changes, which have been positively conclusive in reducing inflation in Turkey in the post 2001 period.

Serdengeçti, in his speeches (on 26 April 2002 and 24 February 2005), makes it clear that CBI is to be maintained by and supported with two other instruments or newly adopted policies: transparency and accountability. He states that provision of information to the general public about inflation targeting, developments and expectations is a crucial element in bringing inflation down. The annual reports prepared by independent auditors are said to facilitate further accountability and transparency. This goes on line with Moser's (2000) suggestions that CBI requires checks and balances to be present in the system.

A number of studies found that CBI resulted in the reduction of inflation, mainly in OECD countries. In order to investigate the impact of (partial) CBI in Turkey so far, it might be useful to determine the structural change in consumer price index or inflation, which is illustrated in Figure 1. and in Table 1.



**Figure 1. Trends in Quarterly Inflation Rate**

*Note:* Red marked point indicates the period when (partial) CBI commenced

Figure 1 depicts the quarterly inflationary trend from 1995Q4 - 2003Q3. In the 1990s, quarterly inflation approached about 22% in the fourth quarter of 1997, and with the 2001 financial and currency crisis, it reached another peak in the second quarter by 20%. After the partial CBI of CBRT, quarterly inflation remained under 10% until 2003 Q1. It declined to about 3.5% in Q2 in June 2002. It seems from figure 1, the inflationary trend took a declining turn when it entered 2003. After reaching 8.3% in the last quarter of 2002, it declined to 1.6% in the third quarter of 2003.

The annual inflation rate is much lower in the post-partial CBI period in Turkey in comparison to the earlier years, as depicted in table 2. In 2002, the inflation rate declined to 26% and in 2003 to 17% only. The declining trends in 2004 and 2005 have been

remarkable, as inflation went down to 8.6% and 6.6% respectively, which is unique in the post 1950 economic life of Turkey<sup>8</sup>. This again verifies the potential positive impact of the CBI in Turkey, which is in line with the evidence presented in the literature. This analysis, indeed, covers only a short period since the partial independence to measure the real impact of CBI in Turkey since April 2001. Therefore, further qualification is needed to find if the change in the trend of inflation is due to CBI or recent robust recovery policies undertaken by governments in collaboration with IMF, which included the move towards CBI.

**Table 2. Annual Inflation Rates**

Years	Inflation Rate (%)
1995	60
1996	58
1997	71
1998	53
1999	52
2000	34
2001	53
2002	26
2003	17
2004	8.6
2005	6.6

In concluding, the impact of political manipulation of economy and the use of CBRT resources in that process has indeed been limited with the removal of compulsory provision of advanced credits, upon request, to the Treasury Department and the public institutions and enterprises. In addition, supporting these positive developments with operational, policy and instrument independence, and with having control over monetary policy, exchange rates policy, inflation targeting and rules, as suggested by Hayo and Hefeker (2002), will be instrumental in establishing fiscal discipline in Turkey, as they argue that CBI is not necessary and sufficient conditions to prevent the politicians to use CB for electoral purposes. Furthermore, objective independence and, in particular, administrative independence have to be sought in due course to establish the formal and total independence of the CBRT in an attempt to moderate the intensity of political manipulation of economy in Turkey. As Sieg (1997) and Vaulbel (1997) provide evidence that even the strong independent German Central Bank found to be conducting monetary policies to support the politically induced business cycles, the quality of the independence in the case of CBRT has to be reconsidered in terms of being open to political manipulation. Because, having a governor appointed by the government may compromise the position of the CBRT despite a certain degree of

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<sup>8</sup> Caution is suggested in interpreting the inflation rates. Although this study has not made an effort to scrutinise the CPI basket through which inflation is calculated in Turkey, a number of newspaper articles has reported change in the constituents of the basket towards goods and services whose prices are not increasing as much as the previous content items.

independence gained so far and may perpetuate the political manipulation of the economy instead of moderating it. Therefore, following developments in the CBRT in the coming months and approaching elections in Turkey will be important to observe if the newly appointed Governor, who has close personal attachment to cabinet ministers and probably political attachment to the government, will facilitate the demand of the government or not in its monetary policy making. Lastly, objective independence will bring about absolute independence, as Maloney *et al.* (2003: C179) state “if the central bank is allowed to choose macroeconomic objectives, then there is a real potential for reduced macroeconomic volatility”.

Hayo and Hefeker (2002) mention about interest politics as a hurdle in front of CBI. This can be an issue in Turkey, as initially weak governments with multi-party politics may not like to loose CBRT, which in the past was used extensively by successive governments in financing the budget deficits originating from the mismanagement of the economy by the incumbent governments including political manipulation of the economy. Secondly, commercial banks in the crisis in 2001 have contributed in a great deal to financial crisis, some of which had been bailed out by the Central Bank and government funds. Therefore, certain sections of the private sector may like to see CBRT to remain dependent so that whenever they need they can utilise the cheap resources it may offer, as done in the past.

Lastly, it is also important to attribute the changes taking place in the inflationary trends to CBI; as there are indications to suggest that such a decrease is not real but rather is a result of the manipulation of the calculation. It seems that the new government has changed the constituents of the consumer price index basket through which the inflation is calculated. This may have various reasons; such as increasing business confidence and overcoming the psychological expectations of inflation.

## **8.2. Economic and Institutional Reform**

To prevent the political manipulation of economy for political gains may require economic and institutional reform to curb the attempts and political ambitions of the government in their use of public funds for their private political gains. As Önis (1997: 34) identifies “[t]he compatibility or the co-existence of macroeconomic stability and democratic government in the context of a late-industrializing, middle income society [namely Turkey], requires certain fundamental institutional reforms that would involve a radical redesign of the form or the type of democratic governance typically in existence”. Economic and institutional reform refers to fiscal discipline, control of government expenditures and the functioning of economic and political institutions and the development of accountability and transparency.

Institutional reforms should aim at enhancing the performance of public sector institutions in making and implementing policies. In other words, it should aim at removing allocative inefficiency as well as *x*-inefficiency in the public sector. For this, Turkey needs to overhaul its entire state apparatus. Decentralisation is an important dimension of institutional reforms. While there is policy suggestions in this direction, the extend of such a reform should go into the heart of the matter by removing unelected governors from town and city administration. Because, in Turkey, local administration is conducted in a two-tier system with elected mayors and appointed governors. The objective of such a system is related to the philosophy of the Kemalist regime, as it aims to control the preferences of the public in the local politics as well. Thus, such a radical

administrative reform should contribute to the deepening of democratic culture in the country, on the one hand, and may reduce the *x*-inefficiency created by the heavy dual nature of the bureaucracy. This may be able to bring the economic development issues to the realm of elected local governments, which are known for their dynamic and efficient problem solution nature. Thus, a modern public management is a necessity.

In the economic reform, there is an urgent need to complete the reforms initiated in the early 1980s, which were left incomplete due to political instabilities and populist policies. The reasons of 1994, 2000 and 2001 crises are attributed to the incomplete structural reforms initiated in the early 1980s. In particular, reform in agricultural sector, financial and banking sector and energy and telecommunication sectors are necessary. In addition, since with new government and IMF-oriented economic policies macroeconomic incentives have changed, restructuring will be inevitable in the banking and financial sector.

Control of public finances is an important aspect of reform in the public sector. As Sandford (1978: 35-36) informs, government expenditure control can be due to securing the 'right' balance of government expenditure in relation to private sector; ensuring efficiency; guarding against waste for efficiency purpose; preventing fraud, corruption and unauthorised expenditures. All these necessitate for public expenditure control in Turkey, which are the causes of political manipulation of the economy. Literature demonstrates the high level of public expenditures in Turkey. Government's role in terms of economic activity and government expenditures<sup>9</sup> should be reduced, as large government provides opportunities with the politicians for political steering of the economy, which results in inefficiency in resource allocation. Thus, efficiency, in particular the inherited inefficiency created by bureaucracy, requires control of government expenditures in the economy.

Waste and corruption are important problems faced in the public sector in Turkey. In particular, use of public funds for political purpose undermines the entire objectives of public finances. For instance, in Transparency International's Corruption Perception Index, Turkey ranked 77 (1 being the least corrupt country) among 133 countries in 2003 (Lambsdorff, 2003: 285). In addition, the same barometer indicates that 50% of the Turkish sample expects increase in corruption in the next three years (Global Corruption Barometer, 2003: 290). Such results further urge the need for public sector reform, to prevent patronage system for instance, as large public sector or public finance give the government to control the resources in the economy, which then are allocated according to political priorities.

The natural consequences of the public sector reform with accountability and transparency is fiscal discipline, which requires unitary accounting and budgeting system, and therefore bringing off-budget funds into consolidated budget and the privatisation of SEEs are important steps for fiscal discipline, which is expected to reduce the resources available for electioneering purpose. High inflationary process is one of the reasons of fiscal indiscipline, as "the fog surrounding the figures caused by high inflation allows large swings in public spending that go unnoticed by the markets and public opinion" (Akat, 2000: 271). Thus, the inflationary process has always facilitated the political manipulation of the economy. Having opportunities of spending outside the budget

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<sup>9</sup> The ratio of government expenditures in the form of consolidated budget to GNP has been increasing continuously: in 1970 the ratio was 0.17; in 1980, 0.22; in 1990, 0.17; in 2000, 0.37; 2002, 0.42. See Appendix I for developments and trends in ever growing government.

resulted in official budget deficit failing to reflect the true nature of PSBR. It is, thus, expected that recent stabilisation policies, taken up with the direction of IMF, results in the realisation of the inflation targeting, which will provide fiscal discipline in the coming future. In particular, developments in CBI should contribute to fiscal discipline by removing credits to the public sector agencies by the CBRT.

It should, lastly, be noted that “the interest of policy makers in maintaining their increased spending powers, and prisoners-dilemma type of problems in the political process are suggested as obstructing desirable reforms” (Tanzi and Schuknecht, 1997: 396). This may result in barriers in creating more focused and efficient government. In other words, unfortunately, the issue yet again comes to the political parameters of the country, as “political leaders pursuing rather nervous populist agendas have been all the more reluctant to dismantle structures and responsibilities which may be viewed as embedded in the very nature of the state... It is difficult to sell an asset if its beneficiaries can argue, not only that the state has an obligation to own it, but that the act of selling constitutes a breach of the constitutional pact on which the existence of the state is predicated” (Cooper, 2002: 123). Thus, the reform policies towards curbing the economic costs of politics, including reducing the size of the state in the economy, encounters the constraints imposed by the late nineteenth century type authoritarian political regime still prevailing in the country. However, with deepening of pluralistic and open democracy in Turkey, it is hoped that such limitations will be circumvented.

### **8.3. Privatisation**

As mentioned previously, SEEs have provided additional sources for the governments to manipulate the economy for electioneering reasons through pricing policies, employment provisions, and resource provision for patronage system. In addition to their inherent economic inefficiencies, such populist policies, in the form of political inefficiencies, have paved the way for further economic inefficiencies in the allocation of resources.

With the liberalisation of the economy in the 1980s, governments aimed at privatising the SEEs as stipulated by the IMF backed structural adjustment policy. However, while the limited success of privatisation attempts cannot be denied, there are thirty-one companies or large SEEs, from telecommunication to banking and petrol-chemical industry, still operating within the public sector. While it is true that establishment has been reluctant to reduce the rentier nature of the state (Shaker, 1995; Shambayati, 1994), speeding up the privatisation programme will reduce the resource allocative capacity of the state, and hence alleviate the costs of democracy, such as limiting the manufacturing of fiscal and monetary policies. While as Cooper (2002) rightly argues the existence of political interest in keeping large public sector, recent privatisation attempts of large conglomerates of Turkey is a positive change in the right direction.

With the rigorous IMF backed new structural adjustment policies and Turkey’s potential entry into the EU is expected to encourage the current government to overcome the hurdles created by the establishment on the way of privatisation. Thus, with complete privatisation, government would be withdrawn entirely from production-distribution-purchasing-and service type economic activity, and therefore would be deprived of an important off-budget expenditure-generating source, which provides another opportunity to moderate the impact of politically induced business cycles.

#### **8.4. Reconsidering the Effectiveness of the Operations of the International Organisations and Financial Institutions**

An examination of the modern history of Turkey indicates that political and economic changes have never come through the protest of the population or through the benevolent attempts of some politicians. On the contrary, international impact has always been the important sources of change. It seems that Turkey cannot transform itself without international intervention. For instance, Marshall Plan after WWII paved the way for multiparty politics in 1946. However, since then Turkey has not undergone serious change other than the economic liberalisation policies in the 1980s. Since such economic liberalisation policy could not be matched by political liberalisation, this paved the way for the recent political instability in the country, in particular with the *post modern coup*<sup>10</sup> in 1997. However, it is expected that the EU accession negotiations to contribute to change in Turkey, as recent political and economic reform packages, which have been passed in the Turkish National Assembly, have been the result of EU imposition.

Turkey's relationship with the West is explained by the concept of patron-client international relationship, in which Turkey has the client role. However, Turkey sometimes managed to take the position of patron, as it managed to use its geo-political and strategic position, which is imminent for the interest of the West, to bribe the international organisations not to go beyond a certain level of criticism to avoid disturbing the regime. A close scrutiny, therefore, will indicate that Turkey would be the only state within EU and its enlargement area, which has a particular regime and its people are bound with that particular regime, namely Kemalism. This does not only have political constraints, but since it was and is an economic project as well, which is based on *étatisme*, it has economic consequences, as *étatisme*, as a principle of Kemalism, is enshrined in the Constitution of Turkey among the permanent articles. Therefore, Cooper (2002) and Pollis (1989) attributes the economic problems of the country to the straightjacket imposed by Kemalism. Consequently, although in practice privatisation is conducted, it was found to be unconstitutional by the Constitutional Court in the 1980s and early 1990s.

Despite the existence and consequences of such a regime, the international organisations and international financial institutions (IFIs) have failed to level real criticism. While it is true that Turkey is criticised, the criticism is, however, against the consequences of the regime, not to the Kemalist regime itself. An exception of this is Oostlander's (2003) Report to the European Parliament on Turkey's application for membership of the EU, which, for the first time, criticised the establishment for its failures.

It should, thus, be stated that the attitude of international financial and political centres towards Turkey's economic failure is, therefore, different than their attitude towards any other developing country. Rescuing Turkey each time from financial and economic crises by IFIs, thus, is nothing to do with Turkey's own domestic politics or economy, but is directly related to its geo-political and strategic position. This is evidenced in the case of other developing countries, such as Argentina, which had a financial crisis in 2001 as well. Since international bodies did not rush to rescue the country, consequences of crisis has been catastrophic for Argentina. On the other hand, when Turkey ran into its most catastrophic financial and currency crises in 1994, 2000 and 2001, IMF, WB and

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<sup>10</sup> The coup of 1997 dubbed as 'postmodern' because the army, instead of suspending the democratic process entirely and assuming power, as it had done previously, put a national coalition of selected political parties into government.

other international agencies conducted a massive rescue operation and managed to bring Turkey to stabilisation by bailing out the country. Indeed, the economic crisis was the result of political mismanagement and political instability and the failures of the politicians. The economic disequilibria or the crises were created through the political intervention of civil and military elite, which resulted in the collapse of the entire economy, as they wanted to re-engineer society and polity. In that process, unprecedented corruption, in the form of collapsed commercial banks, took place, as regime was providing patronage to their own loyal supporters at the expense of the collapse of the entire economy.

Having IFIs each time rescuing Turkey when it runs into economic crisis, however, perpetuates the accumulation of the consequences of political manipulation of the economy in Turkey, because as a result, the country runs from one crisis to another. Consequently, while Turkey's geo-political position provides a reason to be favoured by international agencies, this constitutes another distinguishing feature of PBC in Turkey in the sense of always having an international agency, namely IMF, to pick up the remains of the political manipulation of the economy, in the form of forgone stabilisation policies, or to implicitly finance the populist policies pursued by each government against the requirements of such institutions

As to Turkey's relationship with IMF, it should be noted that, in particular since 2001, IMF has been more effective in its relationship with Turkey. Since 1960, Turkey has had 19 stand-by agreements with IMF and spent 22 years under the prescribed policies of IMF in the form of austerity policies and structural adjustment policies. During this period, Turkey could solely complete 6 of the stand-by agreements<sup>11</sup>. This did not stop IMF to carry on working with Turkey towards economic stabilisation, even when prescribed policies were sacrificed for the short-run gains of politicians through their populist policies during election periods against the stipulations of the agreements. While, as before, this can be explained with Turkey's geo-political and strategic position, the results of IMF policies in economic growth and inflation, as evidenced by Enç and Aykaç (2003: 17), however, have not been as successful as expected. Because, governments in Turkey rush to IMF for short-run stabilisation policies, but receives long-run austerity and structural change policies aiming at sustainable economic growth and stability. Since political instability in Turkey does not give a chance for long-run effect, in most of the cases the policies failed and agreements were suspended due to populist policies.

After the 2000 and 2001 financial and currency crises, there have been some changes in the relationship between IMF and Turkey, as IMF has taken a more responsible attitude. For instance, due to the catastrophic natures of the mentioned crises, IMF and WB have been directly involved in bailing out Turkey. Implicitly expressing their doubt over the capability of the government of the time, IMF and WB posted a Turkish technocrat, K. Dervis, to Turkey from his office in the WB to take care of the rescuing policies. With government agreement, Dervis was appointed in 2001 as a Minister in charge of economy, although it is not conventional to appoint ministers out of the Parliament. This indicated that IFIs were seriously concerned about Turkey's economic future and wished to play a direct role in rescuing the country. Thus, for the first time IMF signed a protocol with Turkey, which aimed at 'close scrutiny' (Uygur, 2001). This implies a change in the attitudes of the IMF, which aims to see the success of the programme adopted to rescue the country after the recent crises. Such positive change, together with

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<sup>11</sup> For a detailed history and account of Turkey's relationship with the IMF, see Uzunoglu (2005).

having a strong one party government, has resulted in stability so far and expected to contribute to the reform policies. However, Uygur (2001) attributes one of the reasons of the success of the recent agreements to the ‘nation’ specific policy, as in the past, IMF prescribed the same policies all over the world regardless of the particularities of each country.

While it is, indeed, desirable to see that Turkey was not allowed to fall into the tragedy lived in Argentina after the financial crisis of 2001, the international community failed to put responsible those civil and military elite for such a failure, and they were never criticised, governments under the shadow of military rule were continuously supported, and there was never a criticism of the *post-modern coup* which entirely undermined democracy in the country. As this example shows, politicians, together with civil and military elite, create disequilibria in the economy and then international community bails out while the future of the entire society remains at stake due to unprecedented level of external and internal debt, made during the 1994-2001 period, to pay for the political engineering of the society by the elite and economic failures of politicians<sup>12</sup>. This, thus, requires a more vigorous and effective international management of the austerity and structural adjustment policies in Turkey by the institutions that prescribe them, as the recent change in the attitudes evidences that effective and serious actions from the international community can bring about change.

In concluding, there is a real need for change in the economic and political realms in Turkey, which seems can only come with international pressure. In such a constructive change, Turkey’s geo-political importance should not prevent international community closing their eyes to the real issues in the country. It is inevitable that such changes now have to take place on the way to becoming a full member of the EU, which is still hesitant about Turkey’s place in Europe. However, by accepting to become a full member, Turkey will to go through reform in every aspect of its governance, which will affect the economic realm as well.

### **8.5. Moderating the Impact of Political Instability on Economy**

Turkey embarked onto economic liberalisation policies under the shadow of authoritarian rule in 1980, which provided an environment with curbed political rights for the flourishing of economic policies in the 1980s. This was followed by one-party government within democratic environment until 1991. However, the fragmentation of the politics, created by the political engineering of the society, revealed the true nature of politics in the country, as returning to old political order set in with the 1991 election, which commenced a period of weak coalition governments until 2002. Thus, the political re-structuring by the military rule, as predicted by democratisation, failed. As in the 1970s, “weak governments that have lacked the authority to pursue, as well as the willingness to pay the price for, deep-seated structural reform” (Önis, 2000: 303), could not continue and complement the economic reform policies commenced in the early 1980s.

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<sup>12</sup> The ratio of domestic debt to GNP was 0.22 in 1988, which rose to 0.54 in 2002, while the ratio of foreign debt to GNP was 0.28 in 1988; it increased to 0.71 in 2002. Total interest payment for domestic and foreign debt over the consolidated budget was 0.03 in 1979; 0.20 in 1990; 0.44 in 2000, and 0.42 in 2003. Except for the last year, a large portion of consolidated budget has been used for interest payments over the domestic and foreign debts. For developments and trends in domestic and foreign debt and interest payments over these, see Appendix 2.

To understand the political instability in the Turkey in 1990s, during the period of ten years from 23.06.1991-28.05.1999 ten different coalition governments were formed with five different prime ministers originating from four different political parties. This implies that, on the average, each government lasted less than one year. It is inevitable that such short-lived governments did not have the mandate to continue with the economic reform policies beyond squabbling over the rents and patronage and personal clashes. Such weak governments are responsible for the three major crises in the history of Turkey, which set back Turkey terribly in the economic realm. Therefore, in attempting to find the political roots of the financial and currency crisis that took place in Turkey from 1994-2001, Kibritcioglu states that “the reasons of these crises and their consequences are related to the political instability” (2001: 1), and that “there is a correlation between political instability and macroeconomic instability” (2001: 6). This is a result of short-lived governments with frequent elections, which means further inefficiencies in public finances due to electioneering oriented public spending. It is therefore meaningful that Hale (1981) located the sources of economic problems in Turkey in politics and predicted that this would remain the most significant explanatory variable in many years to come.

It should be stated that such a fragile politics is not the result of natural development of politics in the country, as political structuring has not been allowed to take its roots naturally. Instead, civil and military elite, since the formation of the Republic, have continuously attempted to socially and politically engineer the society according to the principles of Kemalism. When the elite noticed a deviation from the imposed political culture, they undertook military coups, the last of which took place in 1997. It is interesting to see that the financial and currency crises of 2000 and 2001 as well as the enormous bankruptcies in the commercial banks, which were bailed out by these governments, took place under the mentioned national coalition

Consequently, democratisation and the political consciousness of the citizens is a necessary means to stop such interventions, which otherwise would continue to have enormous economic consequences. It is hoped that recent reforms, under the direction, of EU and IMF, would take root in reducing political instability and its impact on economy mutually. In particular, since the 2002 elections yielded a strong one-party government, there have been positive developments in EU membership as well as in the relationships with IMF. In particular, it seems that government has been closely following IMF prescriptions, and together with political stability, the developments in the economy have been positive.

## **8.6. Deepening Democracy through Civil Society**

The literature indicates that there is an acknowledged relationship between the democratisation and the success of economic reforms. Democratisation requires the creation of a pluralist society, where various interests and preferences can be freely expressed with the strong civil society, which is the source of democratic politics, as it enables the pluralism to be exercised in the society. This indeed necessitates the existence of individualism. However, the examination of the society in Turkey reveals the heavy presence of state against the individual rights and freedoms. In such an environment, various sectors in the society are left without any options in search of their rights, which includes the labour and the business as well as the ordinary people’s understanding of their relationship with the state. While statism (*étatisme*) is a cultural inheritance of the Turkish people as well as the imposition of the regime, it does not fit into the realities of modern economy and polity.

Consequently, strong interest representation fails in the society, and patronage and rents from the governments replaces interest politics as an alternative. This affects the economic sphere, as failure in establishing civil check and balances in the society leaves the establishment and the governments to easily manoeuvre in the politics and economic realms. Indeed, this, in the end, is related to transparency in public conduct and accountability on the side of legislative and executive branches.

Accountability remains an important part of the check and balances in a democratic society. The question ‘what happened to tax payers’ money’ asked by an individual citizen in the UK is not an issue in Turkey. Such political and civil consciousness is hardly seen among the people. While ordinary people have suffered terribly under the high inflation and economic crises, they did not organise to call the politicians to be responsible for this to give the account of such failures. “Instead of concerted political action to discipline the legislative and executive branches of the government, Turkish citizens choose to protect themselves from the immediate effect of inflation by substituting sound foreign currencies for risky local currency. This creates further moral hazard, because the population now believes that they have obtained immunity from the hard costs of high inflation and will be even more passive toward collective solutions” (Akat, 2000: 274). This indicates the lack of civil society and political consciousness.

Interest representation and political efficacy of labour and the business sector suffer from the same underdeveloped political consciousness, both of which rather prefer to flourish under the patronage of the state. Consequently, “the role of commercial interest groups in the economic policy-making process of government is either minimal or non-existent” (Kalaycıoğlu, 1991: 83), as the “concentration of decisionmaking powers in the government means that that economic interest groups have little to say in shaping policies” (Özbudun, 2000: 136).

It is, therefore, difficult to join Kalecki’s analysis of the perpetuation of politically motivated business cycles in the case of Turkey, as Bugra (1994) explains, business sector still prefers to remain within the boundary offered by the state, and the individual businessman seems to prefer to deal with the government on an individual base rather than through, for example, Turkish Industrialist and Businessmen Association (TUSIAD). However, this is not a new phenomenon for Turkey, as “since the days of the Ottoman Empire, the Turkish private sector has always been nurtured by the state and obtained its power from the state” (Kalaycıoğlu, 1991: 81-82). This explains as to why business community, which had to bear the consequences of deteriorating economic conditions, remained passive and did not lobby with the government for the change of policies. In responding to this paradox, Akat (2000: 281) states that “the division within the business community and lack of powerful central organizations, which represent them and project their vision in the public sphere. The other is the illusion, inherited from the days of closed command economy, that inflation is not all that harmful to the interests of the bosses. Whatever the causes, the end result was the same: businessmen left no strong urge to fight against inflation, but rather attempted to learn to live with it”. Such a paradox can be explained with the patronage system as well. Because, when state remains at the centre of creating rent and distributing resources in the economy, it remained in the interest of the individual businessman not to disturb the apple carts for the individual benefits he/she may gain. Thus, lack of class-consciousness, and hence, lack of interest representation and lack of political efficacy do not help to limit the free-zone politicians allocated for themselves in the public sphere.

The same is true for the labour, too, as labour consciousness hardly exists in the country. Except for the radicalised politics of the 1970s, the large labour mass has always supported right-wing governments, which can be seen in the votes received by the left-wing parties since the 1980s. This is due to the fact that, while left-wing parties remained a close ally of the state in attempting to politically and socially engineer the society; they paradoxically attempted to represent the labour. Such a paradox did not help them to attract labourers. Secondly, since Turkey is a late industrialised country, it did not go through an industrialisation revolution during which labour class could emerge. However, labourers in the large industrialised and commercial cities of Turkey are mostly still the first and second generation rural migrants, who still stick to their traditional values in experiencing and transforming the values of urban life.

In sum, Akat (2000: 281-282) finds the perpetuation of the high inflation in Turkey until recent times in the lack of such a functioning civil society, when he enunciates that “there was no substantiated demand, either from the citizens, the bureaucracy or the business community, for a hard stance by the politicians against inflation... When nobody wanted them to fight against inflation, politicians simply followed the popular sentiments and did nothing”. This illustrates that fully functioning civil society would have been instrumental in influencing economic policies for the betterment of the society and would have moderated the political reasons of economic difficulties.

Consequently, for the reduction of the enormous costs of political manipulation of the economy, there is a real need for the fully functioning of civil society, which should be accepted by the state and should be functionalised by the individuals. Such a development necessitates democratic deepening: an important element of democratic deepening “involves the process of decentralization and the growing importance of local level participation in politics that are in line with the global trends” (Önis, 2000: 305). Indeed, potential EU membership will provide such an environment, for the process of democratic deepening in Turkey, with accountability and transparency in economic policy making and execution provided that individuals embrace the reality of giving up their ‘sacrosanct state understanding’ in favour of individual rights.

### **8.7. Constitutional Provisions**

The normative aspects of public choice theory have also dealt with the economic consequences of the political manipulation of the economy, and the entire sub-discipline of Constitutional Economics is devoted to prescribing policies to alleviate the costs of democratic procedures by limiting the economic provisions of the government. After blaming Keynes and Keynesian policies for leading the growth of government and hence political impact on the economy (Buchanan, 1977), Buchanan (1991) suggests constitutional arrangements whereby democracy can be disciplined in terms of its economic consequences leading to minimal state. Such suggestions include the establishment of monetary and budgetary rules and institutions that discipline government, which must be made part of a written constitution and can only be changed by substantial majorities of the people. Buchanan believes that these should bring about solutions to the unrestrained budgetary deficits and may end the state monopoly over money whereby the economic disciplinisation of democracy could be possible.

It should, however, be stated that the propositions of the constitutional economics has a particular ideological orientation, in spite of having strong implications for the fiscal discipline. It remains with the political entity and consensus whether it is likely to ideologically overstretch to adopt the policies suggested by constitutional economics.

However, control over public finances and public sector, as has been demonstrated, is a necessity to moderate the negative and welfare-diminishing nature of political manipulation of the economy.

## IX. CONCLUSION

A newspaper item from an Istanbul based daily, *Milliyet* (09.04.1999), prior to 1999 election, summarises the discussion in the preceding section. The newspaper cutting covers the election oriented economic policies in the weeks preceding the April 1999 elections. The title of the news story is ‘*Thanks! Election is Approaching*’, which then states that “in the weeks to the general and local elections, payments that had been in arrears for months have been paid; the infrastructure constructions that had been halted have commenced and some of them have already been completed; additional efforts put into the completion of the investments”. The news report, then provides the details of the election oriented economic activities under these three items: *Fast-track Payments* such as the payments to hazelnut, cotton and beetroot producers, which had been in arrears for months, as the related SEEs are the major buyers of these agricultural products. In the second column, under the heading of the *Merciful Administrators*, the cases involving charitable activities of the local mayors from the local budget are accounted. As the news item states, although the local government in question normally stops the water supply in the case of delays in the payment, in the election period it had stopped pursuing such a policy. The last column heading is *Overdue Constructions are Being Completed*, under which the examples of infrastructure investments that had been halted until, but re-commenced with the election period are listed, which includes the completion of a bridge, which was damaged many years before and the completion of new housing estates, *etc.* As a result this newspaper report demonstrates, non-systematic policy but micro-level policies greatly influence the election decisions of voters in Turkey: namely, various patronage mechanisms.

The functioning of the political manipulation of the economy, thus, indicates that *egotropic* voting attitude is the prevailing attitude, which is sustained and encouraged by various governments throughout the history of modern Turkey. Thus, *sociotropic* attitude or voting according to the national performance of the economy is not typically relevant. Although there has not been any systematic study on this issue, Özcan (2000) in his attempt to determine the behaviour of the voters, in the 1999 local elections in Turkey, included economic variables such as employment status and professions of the surveyed individuals. His study provides weak evidence in support of *egotropic* voting attitude. It is important to note that *egotropic* voting attitude, which is micropolitics oriented, is the consequence of using fiscal and monetary policies.

The preceding discussion renders support for micro-level policies pursued by governments to surf on the election cycles, which is based on providing personal gains to attract votes, as the family of the newly appointed civil servant would naturally vote for the party which provided the job opportunity, unless there is partisan lineages. This does not imply that macroeconomic policies are not manipulated. In other words, the discussion should not be interpreted as an argument for the absence of political business cycles or the manipulation of the economy for electoral gains. On the contrary, the objective of the preceding discussion is to demonstrate the manner in which such manipulation is exercised or manifested in Turkey. In other words, it suggests that the manner in which, for instance, government expenditure is used by the incumbent government for boosting its likelihood of winning an election may show differences to

the theoretical suggestions provided by the public choice framework. Because, the natural consequence of employing another one hundred new employees in various state departments directly refers to increased costs to the government and the need to find resources to meet such requirements. Thus, the natural consequences of the micro-level policies are macroeconomy related, the result of which is the manipulation of macroeconomic variables.

In concluding, since “the endemic nature of populist cycles clearly highlights the weakness of Turkish democracy in providing effective governance of the economy” (Önis, 2003: 2), it is paramount that institutional reforms in Turkey should be undertaken to prevent the increasing costs of democratic procedure or elections in terms of inefficiency and instability in the economy. However, whether such reforms should follow the radical libertarian format identified by Buchanan is a matter of political choice. Önis (1997) argues that in the case of Turkey such institutional reforms should include the redefinition of the role of state in the economy, restructuring of the state apparatus or the state bureaucracy, reform of the party system and the building up of new institutions to link the state to organised interest associations in civil society, with the objective of increasing accountability.

It should be reiterated that economic reform policy suggestions go directly to the heart of the establishment, as Cooper (2002: 127) states “[t]he Achilles’ heel of the Turkish establishment is its handling of the economy, an area in which the legacy of Atatürk is the source of confusion and poor performance”. In other words, developments in the political parameters of the country will define how such a legacy can be overcome to reform the economy and polity. Since such a radical change has yet to be realised, Hale (1981: 261) rightly predicted about twenty-five years ago that “it seemed, in fact, that Turkey’s most serious economic problem was actually political and that it would remain with her for many years to come”. International community and in particular EU, therefore, has to reconsider their policies towards such a reality in economy and polity, which are mutually interdependent, as reform in Turkish politics and economy seems to be possible only with their enforcement.

In summing, the discussion in the preceding sections provides additional insights into the creation, functioning, distinguishing characteristics and economic costs of PBC by deconstructing the political economy of elections in Turkey. In addition, by discussing the economic costs of democracy and policy options, which could be used to moderate the economic costs of PBC, the study “illustrate[s] rather clearly the important role political institutions can play in insuring that political competition works to benefit citizens rather than to harm them” (Mueller, 2003: 466). In the case of Turkey, it has been inefficiently functioning and has resulted in economic harms. It is hoped that with the reform policies, such political competition can be re-formulated to work in enhancing the well-being of individuals in the society.

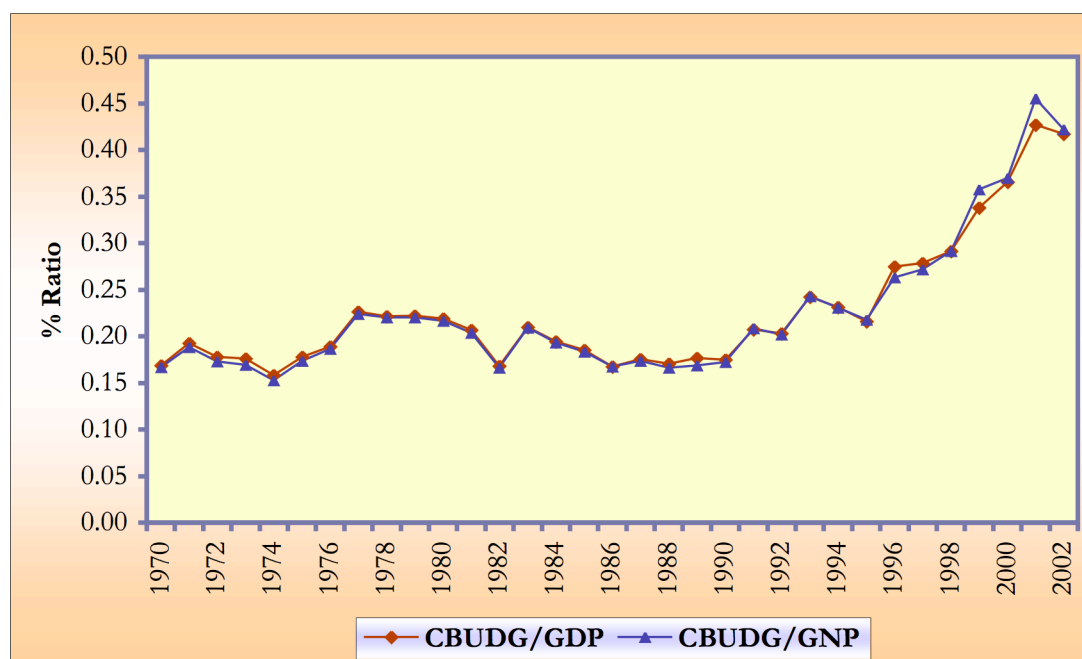
## APPENDIX I

### Developments and Trends in Growth of Government

#### Growth of Government

Years	CBUDG/GDP	CBUDG/GNP	Years	CBUDG/GDP	CBUDG/GNP
1970	0.17	0.17	1987	0.18	0.17
1971	0.19	0.19	1988	0.17	0.17
1972	0.18	0.17	1989	0.18	0.17
1973	0.18	0.17	1990	0.17	0.17
1974	0.16	0.15	1991	0.21	0.21
1975	0.18	0.17	1992	0.20	0.20
1976	0.19	0.19	1993	0.24	0.24
1977	0.23	0.22	1994	0.23	0.23
1978	0.22	0.22	1995	0.22	0.22
1979	0.22	0.22	1996	0.27	0.26
1980	0.22	0.22	1997	0.28	0.27
1981	0.21	0.20	1998	0.29	0.29
1982	0.17	0.17	1999	0.34	0.36
1983	0.21	0.21	2000	0.37	0.37
1984	0.19	0.19	2001	0.43	0.46
1985	0.19	0.18	2002	0.42	0.42
1986	0.17	0.17	2002	0.42	0.42

#### Growth of Government: Trends



## APPENDIX II

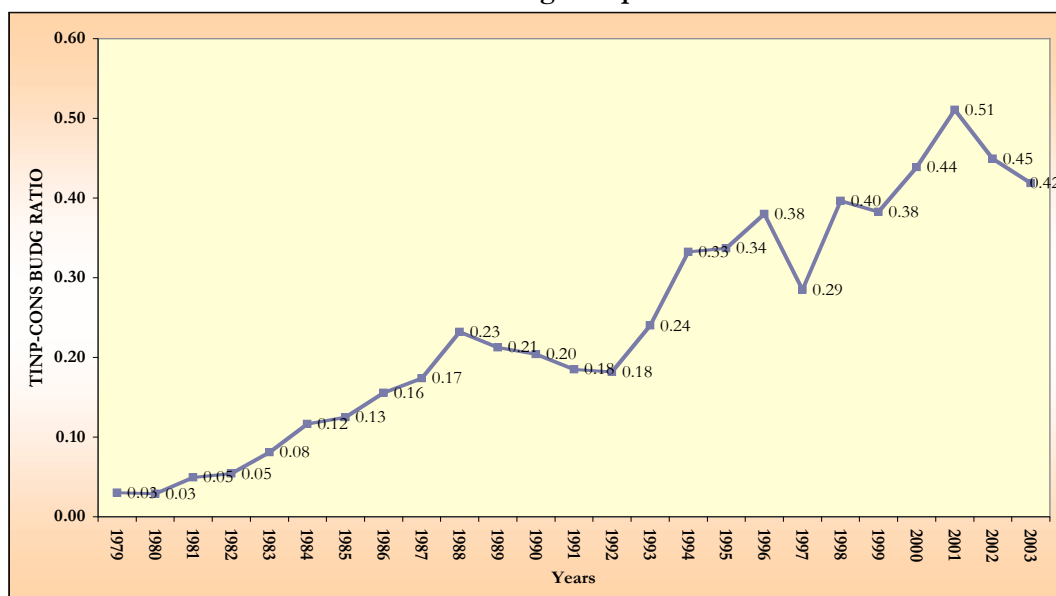
### Developments and Trends in Domestic and Foreign Debt

#### Growth of Government

Year	DOMDEB/GNP	EXTDEB/GNP
1988	0.22	0.28
1989	0.18	0.22
1990	0.14	0.26
1991	0.15	0.30
1992	0.17	0.35
1993	0.18	0.38
1994	0.20	0.51
1995	0.17	0.42
1996	0.21	0.43
1997	0.21	0.43
1998	0.22	0.47
1999	0.29	0.55
2000	0.29	0.59
2001	0.68	0.79
2002	0.54	0.71

Note: DOMDEB/GNP: Domestic Debt to GNP Ratio;  
EXTDEB/GNP: Foreign Debt to GNP Ratio

#### Trends in the Ratio of Total Interest Payment for External and Domestic Debt over Consolidated Budget Expenditures



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