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THE IMPACTS OF NEO-LIBERAL POLICIES ON TURKEY IN 2000-2001

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ABSTRACT

Since the late 1970s, many developing countries have been faced with difficulties due to their adoption of neo-liberal policies through agreements with World Bank and IMF. Especially due to the Structural Adjustment Programs and the conditions imposed by these Institutions on developing countries, the development process of these countries has been fraught with problems. Many of these countries faced severe economic crises, causing them to rely more heavily on the intervention of international institutions, thus becoming more engaged with neo-liberalism. As seen in Turkey, for example, engagement with these institutions generally resulted in a crisis; the burdens of the crises generally fell on the public sector. This paper discusses why and how neo-liberalism affects developing countries by examining Turkey's experiences with neo-liberalism.

INTRODUCTION

For the last 40 years, neo-liberal policies have prevailed all over the world. The sudden influence of neo-liberal policies began during the 1970s with the Oil Crises, the Vietnam War and the collapse of the Keynesian policies. As Palley (2004) mentions, “In the mid-1970s the Keynesian impulse went into reverse, to be replaced by neo-liberalism. This reversal piggybacked on the social and economic dislocations associated with the Vietnam War era and the OPEC oil price shocks, which dominated the 1970s.” (pp 2). As neo-liberal policies gained power in the U.S., neo-liberalists began to spread neo-liberal ideology to the rest of the world by using international institutions. As Diner (2011) mentions, “In the aftermath of the recession of the 1970s in the developed world and the debt crises in the developing world, the inward-looking, protectionist policies of the ‘planned economic period’ have been scrutinized and questioned intensively and a wave of reforms emphasizing ‘outward oriented’, ‘open’, ‘liberal’, ‘free-market’ policies has become the main agenda of the international financial institutions (the IFIs hereafter), the World Bank and the IMF." (p306). Many people attribute the fast growth of Neo-liberalism to the success of the policies. However, the recent crisis of neo-liberalism calls into question the usefulness of neo-liberal policies.

Neo-liberalism was introduced to the developing countries in order to help improve their economy and quality of life, especially during the 1980s, when the policies of Margaret Thatcher and Ronald Reagan gained importance. The international organizations, which were created at the Bretton Wood Conferences such as International Monetary Fund (IMF) and World Bank (WB), started to impose neo-liberal policies on the developing countries. Many scholars saw it as an opportunity for the third world countries. However, in reality the process of improvement did not last long for many of these developing countries. Many of these countries experienced several crises, and saw an increase in the amount of people living under the poverty line. The crises during the 1990's and 2000's were particularly important consequences of the neo-Liberal policies.

The main purpose of this study is to discuss the social impacts of neo□liberal policies on developing countries. I will focus on the policies imposed by WB and the IMF on Turkey, and the 2000-2001 economic crises when unemployment reached skyrocketing levels in Turkey. In addition, this paper will assess the effects of the Neo-liberal policies on the general economy of Turkey.

This study is organized in three parts. The first part is an overview of neo-liberalism with a focus on how neo-liberalism emerged. The second part concentrates on the International Financial Institutions and their relation to neo-liberalism in developing countries. It also focuses on the structural adjustment programs, imposed on the developing countries by World Bank and IMF. Part three examines how and why neoliberal policies appeared and affected Turkey. Moreover it concentrates on the conditions that led to the 2000-2001 economic crises, mainly emphasizing the IMF programs. Additionally, it focuses on the unemployment, poverty, and social spending (on things such as education, health, and social welfare) in Turkey during and after 2000-2001, to show the failure of IMF and World Bank Supported policies.

Methodology

This study will rely on secondary material and primary sources.

A) NEO-LIBERALISM

1) Definition of Neo-liberalism

Neo-liberalism has been one of the most debated topics in recent years. The main points of these debates generally center on the failure of the policies of neo-liberalism and their consequences. A number of scholars mentioned that the neo-liberal policies imposed by international organizations on the developing countries failed very dramatically, and some scholars argue that the failure of these policies has increased poverty in developing countries. To understand how neo-liberalism began, gained importance and failed, it is important to have a clear definition of it. Scholars have advanced different definitions of Neo-liberalism. I have chosen to use Harvey who defines Neo-Liberalism as;

"A theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade .The role of the State is to create and preserve an institutional framework appropriate to such practices. The state has to guarantee for example the quality and integrity of money it must also set up those, military defense, and legal structures and functions required to secure private property rights and to guarantee, by force in need be, the proper functioning of market .(p2).

The neo-liberal theory limited the government interventions in the market. As seen in Harvey's definition, the supporter of the neo-liberal policies does not let the states work in the market. For them a state is necessary, however the power of the state must be minimized.

2) Origins of Neo-liberalism

Neo-liberalism grew out of the theory of classical liberalism, and it took the main feature of liberalism. As Werlhof mentioned (2008), "[…] the predecessor of the neoliberal model is the economic liberalism of the 18th and 19th centuries and its notion of "free trade". (Para. 12). The idea of neo-liberalism originated in Chicago school by Friedrich Hayek and Milton Friedman. However, Neo-liberalism did not emerge until the 1970`s due to the decolonization period, adaptation of import substitution, protectionist and statist economic programs of the new national states, and the absences of the power of IMF and World Bank to put pressure on the governments.

Until the end of the 1960's, Keynesian economics worked sufficiently in many countries until the emergence of inflation and stagnation. During the 1960's Keynesian economics began to melt down both in domestic and international economies. As Harvey (2005) noted," Unemployment and inflation were both surging everywhere, ushering in a global phase of 'stagflation' that lasted throughout much of the 1970s" (p.12) Especially with the 1973 OPEC petroleum crises, a sudden increase in petrol prices occurred around the same time as the collapse of the Keynesian economy and at the same time as the collapse of the Bretton Woods fix exchange rate program. As Harvey (2005) stated, "Gold could no longer function as the metallic base of international money; exchange rates were allowed to float, and attempts to control the float were soon abandoned" (p.12) These processes led to a rise of neo-liberal policies which were built on the idea of competition and the free market and minimized the role of the state in general. This new system allowed the market to make decisions instead of the states, and it supported free trade, economic liberalization, privatization and deregulation.

Neo-liberalist system replaced the collapse system to become a solution for ongoing problems. However, the policies of neo-liberalism could not solve the all of ongoing problems. Then why did neo-liberalism emerge? There is no explanation, However Harvey interprets the rise of neo-liberalism as, “We can, therefore, interpret neo-liberalization either as a utopian project to realize a theoretical design for the reorganization of international capitalism or as a political project to re-establish the conditions for capital accumulation and to restore the power of economic elites."(p.133)

3) Neo-liberalism after the 1980`s

Since the 1980s, neo-liberalism has spread very quickly. Many countries were adversely affected by this rapid progress. There were several remarkable facts which gave neo-liberalist policies the opportunity to spread easily during the 1980s. Both Ronald Reagan, the president of the United States, and then Margaret Thatcher, the prime minister of Britain, accepted new economic policies which were seen as neo-liberal policies. Secondly, the dissolution of the Eastern Bloc gave an opportunity for neo-liberalism to spread all over the world without any resistance. The right-wing governments were replaced by leftist governments in the 1980s, widening the influence of neo-liberalism around the world.

From the 1970's to the mid-1990's a neo-liberal system named the "Washington Consensus" emerged, which imposed orthodox economic policies on various countries, especially in the developing world. John William created the term of the Washington Consensus in 1989 which cover the main feature of the neoliberalism from 1970s to mid-1990. According to his study "A Short History of the Washington Consensus" (2004), this system operates under 10 basic rules, which are outlined below.

- Fiscal Discipline
- .Reordering Public
- Expenditure Priorities
- Tax Reform
- Liberalizing Interest Rates
- A Competitive Exchange Rate
- Trade Liberalization.
- Liberalization of Inward Foreign Direct Investment:
- Privatization
- Deregulation
- Property Rights

Neo-liberalism especially affected individual freedom and market order. It attempted to minimize the state's role in local policies in order to strengthen the market. As Onis and Senses mentioned (2003), "The natural implication of this diagnosis was that the market should be liberated from the distorting influences of large public sectors, pervasive controls and populist interventionism" (p.264). However, focusing on a market-based development and making cuts on public spending is not enough to give the human beings their freedom. As Chomsky (1999) mentioned, "Liberty and freedom of the individual could only be guaranteed by free market free trade and private property rights It is precisely in its oppression of non-market forces that we see how neoliberalism operates not only as an economic system, but as a political and cultural system as well" (p .9)

Furthermore, in a neo-liberal system it is the free market, free trade and unrestricted capital power that creates the economic, social and ideological goods. As Senses (2003) mentioned, the organizing principle of neoliberal political economy was the notion of a minimal state, whose primary functions were to secure law and order, ensure macroeconomic stability and provide the necessary physical infrastructure.(p;1)

Although one of the central goals of neo-liberalism is to maximize human welfare, this is not always the case. As Werlhof mentioned, "A "free" world market for everything has to be established – a world market that functions according to the interests of the corporations and capitalist money." (What Does the "Neo" in Neo-liberalism Stand for?, para. 5). One of the main features of neo-liberalism is the concept that the market which totally rejects the control of Government on the market (even the free market) causes a social damage which also cuts the payment for social services, such as education and health.

The supporters of Neo-liberalism generally believe that by connecting developed and developing countries, global stability and democracy will be provided. However, in order to protect the interest of multinational companies, neo-liberalism supports the minimization of state authority through international organizations like IMF and World Bank. The main reason why IMF and World Bank imposed new policies and new advice is to transmit the economic power from developing countries to developed countries and multinational companies.

Neo-liberalism has helped those who already had the means of production to expand their business. Neo-liberalism did not spread only by the free market, but also by the interventions of Washington-based international organizations (such as IMF and World Bank). Their Structural adjustment Programs in particular let the neo-liberal policies diffuse in developing countries. As Werlhof mentioned (2008), “this goes as far as claiming that the common good depends entirely on the uncontrolled egoism of the individual and, especially, on the prosperity of transnational corporations.” (What Does the “Neo” in Neo-liberalism Stand for?, para. 5)

Another important aspect of Neo-Liberalism is tax cuts, which benefit rich people and destroy the solidarity of the society. In a neo-liberal system, taxes are seen as the barrier to a free market economy, since cuts on tax rates make the free trade easier.

Neo-liberals trust the market equilibrium and they disregard the environmental and social disasters. For this reason, social problems began to rise in many countries and this led to dramatic crises in many countries, especially developing countries, during the 1990's.

4) Neo-liberalism and Developing Countries

Neo-liberalism is a political economic system which is imposed on the developing countries by developed countries. Firstly it was imposed by developed countries such as the United States, Canada, and countries in Europe. Secondly, it was imposed by transnational organizations such as Mc Donald's, Pepsi, and Coca-Cola. Thirdly it was imposed by International financial institutions such as IMF and World Bank. As Onis and Senses (2003) mentioned, "The dominance of developed countries in the world economy is extensive, encompassing production, finance, trade, and technology: 90 per cent of all patents originate in these countries, and two-thirds of world trade is controlled by only 500 transnational corporations (TNCs),again originating mostly from these countries" (p. 279).

By the end of the 1970`s, the decreasing profit rates on capital became the biggest issue for most of the developing countries. This process forced the developed countries to seek new markets. During the same time government interventions in economy had been continuing in developing countries. In the developing countries controls on capital transactions and foreign currency were very extensive, which is why the developed countries tried to find to a way to enter into the markets of developing countries. To do so, developed countries started to implement financial liberalization and privatization in developing countries by using the recommendations of IMF and World Bank, both of which operate under the Washington Consensus. Thus, the capital could easily enter and exit in these countries. As Hayami (2003) pointed out, "'The Washington consensus,' advocated the free market as the controlling mechanism for economic activities, except for the supply of public goods including sound "macroeconomic management"(p.4). As soon as Washington Consensus quickly started to spread, unemployment, environmental disasters and social problems began to rise especially in developing countries. As Sensen (2003) mentioned, “a country that appeared to be fully committed to the implementation of the neoliberal agenda has ultimately found itself in the midst of a deep economic crisis with dire social effects.” (p.26)

A majority of developing countries had signed agreements with IMF and WB in the late 1970's in order to overcome debt crises and to strengthen their currencies. Thus they began to participate in a newly structured project known as the Washington Consensus. The main features of the Washington Consensus were: minimizing government intervention and conceptualizing the responsibilities of the government. Under this system, the state must give education, improve and transform the technology for improvement of the quality of the workforce.

In reality the structural adjustment programs imposed by IMF and World Bank are playing an important role in developing countries for the benefit of the rich countries. Onis and Senses argue that (2003) “Many countries found themselves on a highly fragile growth path based on short-term and highly speculative inflows of capital” (p.268). These programs impose the idea of privatization, focusing on export and high interest rates. Consequently, many developing countries had severe crises during 1980's due to the Washington Consensus. Martinez and Garcia (2012) mentioned that, “Other countries followed, with some of the worst effects in Mexico where wages declined 40 to 50% in the first year of NAFTA while the cost of living rose by 80%. Over 20,000 small and medium businesses have failed and more than 1,000 state-owned enterprises have been privatized in Mexico." (The main points of neo-liberalism para.6) Mexico is not the only example; Argentina, Turkey, and several African countries experienced the same crises during the 1990s and 2000s. The main reason for these collapses in developing countries is that the IMF and WB oriented their policies to a first world country's expectations. Conversely, several countries which did not implement the Washington Consensus stabilized their economies. As Hartwick and Peet (2009) mentions "[...] countries with high growth rates during the 1990's and early 2000's, like China and India, were exactly those not using Washington Consensus policies." (p.93)

By the early 1990's the project of market liberalization through the Washington Consensus was faced with problems. Income inequalities rose both within countries and between countries, which is why many fast-growing countries faced economic crises. Right after the 1997 Asian crisis, the Post -Washington Consensus was created. The main structure of the Post-Washington Consensus is that it accepts the importance of the government in the development of the countries. The Post- Washington Consensus added poverty reduction policies to its governmental responsibilities. However, in this system instead of the government, free market seen as the main system to reduce the poverty

B) INTERNATIONAL INSTITUTIONS

1) Brief History of the Bretton Woods Agreements

The Bretton Woods Agreements was the first worldwide financial and monetary meeting; it was convened in Bretton Woods, New Hampshire (U.S) in 1944 in order to reconstruct and redesign the global economic and political systems that were destroyed during WWII. The countries which attended the Bretton Woods conference all agreed about the role of the government in regulating international and national economic systems. The main goal of this meeting was to discuss the stabilization of the world currencies, and promote trade by creating new institutions such as the IMF and the World Bank. Furthermore they created a new fixed exchange rate system based on the US dollar.

2) Brief History International Monetary Fund (IMF)

The International Monetary Fund is an international institution that was established in December 1945. However, the idea of starting the IMF arose during the Bretton Woods conferences in 1944. The IMF was created to decrease the negative effects of the 1929 world economic depression and the war. The main goal of IMF is to expand international trade and to sustain economic stability through exchange rates. As stated on IMF`s Web Page, “IMF is an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.” (2012). IMF provides technical assistance to its members and focuses mainly on monetary and financial policies, fiscal policy and management, and economic and financial legislation.

The IMF was created on a quota-based system. Each member country has to grant a certain amount of money called a quota; the IMF uses this system to lend to countries that are struggling economically. The members who have more quotas have the chance of borrowing more money and they have more voting power in the IMF. Moreover, the IMF lends the money to needy countries in several circumstances. As mentioned on the IMF Web Page, “Upon request by a member country, an IMF loan is usually provided under an “arrangement,” which may, when appropriate, stipulate specific policies and measures a country has agreed to implement to resolve its balance of payments problem.”(2012)

3) Brief History of the World Bank

The World Bank, which is also known as International Bank for Reconstruction and Development, provides financial and technical support to its members. It was developed primarily for the purpose of renewing destroyed economies, and reconstructing and rebuilding the damaged countries after WWII. The main goal of the World Bank is to reduce poverty all around the world. To do so, it gives long term loans for productive purposes in developing countries. “ […] the World Bank mainly loan capital for the construction of infrastructure (roads, railroads, power facilities etc.) in the belief that development basically meant economic growth, and this, in turn dependent on public investment." (Hartwick: 2009:88)

A country has to be a member of IMF in order to be a part of the World Bank. As stated in the Bretton Woods Agreement under the subtitle *The Articles of Agreement of the International Bank for Reconstruction and Development*, “The original members of the Bank shall be those members of the International Monetary Fund which accept membership in the Bank before the date specified in Article XI, Section 2" (1944). This shows that IMF and World Bank support each other.

4) IMF and World Bank Structural Adjustment Programs (SAP)

With the shift to a new economic system at the end of the 1970`s, developed countries started to advise the developing countries to shift from an import-oriented economic system to an export-oriented neo-liberal economic system, under the guidance of the IMF and World Bank. These institutions created new policies, which are known as Structural Adjustment programs, for adapting the developing countries to this export-oriented free market system.

Structural Adjustment Program is defined by Zawalinska (2004) as a " process of market-oriented reform in policies and institutions, with the goals of restoring a sustainable balance of payments reducing inflation, and creating the conditions for sustainable growth in per capital income." (p.5). Apparently, Structural adjustment programs were imposed on the developing countries by IMF and World Bank in order to encourage them to create their own development process. For this reason, IMF and World Banks Structural adjustment Programs were seen as their salvation by the developing countries' governments.

Even though Structural Adjustment Programs have different implementation for each country, they have common principles such as liberalization, privatization, devaluation, and deregulation. The main goals of these policies are: firstly, to devaluate the currencies of the borrowing countries against the dollar for increasing the market competition; secondly, to privatize the public institutions and sectors in order to allow foreign investments in developing countries; thirdly, to decrease the government expenses and thereby produce more commodities for export.

SAPs applied to the developing countries under different names both in IMF and WB. World Bank SAPs started with Structural Adjustment Lending (SAL) which was about applying general policy assistance. And the IMF`s Structural adjustment program started under Structural Adjustment Facility (SAF) that was established for supporting macroeconomic policies in developing countries. It then became to known as Enhance Structural Adjustment Facility (ESAF) which was an expanded form of the SAF.

Although the main goals of IMF and World Bank SAP are similar, they differ in key ways. IMF SAP's are given for short term development, supporting monetary and fiscal subjects, and IMF gives more importance to reducing government spending and inflation problems. On the other hand, the World Bank gives long- term loans and supports liberalization and reform in the public sector. The key policies of World Bank SAP are the reduction of protectionism, the reduction of price interventions, and sectoral regulations and investments.

Structural Adjustment Programs first emerged with the implementation of liberalization in Latin America. To stop the effects of ongoing debt crises in Latin America during the 1980's, IMF and World Bank implemented several policy reforms in the governments of Mexico, Argentina, and Brazil. Through Structural Adjustment Policies, they started to impose conditions on granting loans. For the IMF and World

Bank previous Latin American crises had resulted from government failures, so these organizations` SAPs highlighted the importance of the market. As a result of this, they demanded that the governments must reduce their regulations, "[...] including removal of trade restrictions which had constrained market mechanisms and distorted resource allocation […]" and also, "[…] government must shoulder the cost of public goods but must keep within the limits of available revenue so that decent stability is maintained in the purchasing power of domestic currency." (Hayami: 2003:3) After the 1980's the main goal of the conditions imposed by the IMF and World Bank was to let the developing countries make changes in their policies.

Ostensibly, IMF and World Bank structural adjustment policies were created for sustaining the economic stabilization around the world. However, due to the SAP decisions, poverty and unemployment grew among and within countries. Developing countries continued to accept loans from IMF and World Bank, despite the strictures of the conditions. Many countries accepted these conditions because they had already been divested under debt crises and they wanted to escape from a desperate situation. For this reason they accepted the conditions of Structural Adjustment Programs. However, developing countries could not achieve what they expected through policies imposed by the IMF and World Bank. Many countries that borrowed money have experienced severe economic crises because of these policies. Argentina and Mexico are two important examples of such collapses.

The 2001-2002 Argentina and 1994 Mexico economic crises can be seen as the collapse of neo-liberalism and the structural adjustment programs. Starting with privatization, deregulation, and liberalization of the market in the 1990s, export-oriented economic strategies and devaluation of currencies appeared as the main conditions of the structural adjustment programs in these countries. As Tebula (2004) mentioned, “[...] some of the main aspects of the structural adjustment program included: an extreme privatization program; deregulations of all kinds, in particular with regard to the 'flexibilization' of labor markets; and a new opening' to the world economy, in particular concerning financial interests.”(174).

The structural adjustment programs in Mexico were imposed by IMF and World Bank in 1982, and at the same time Mexico accepted the exchange rate bands. "In return for a $4 billion loan, the IMF required that the Mexican government impose an austerity program designed to produce cuts in every area of state spending." (Hellman: 1997:2). Thus the government led a reduction of real wages that increased the unemployment rate in Mexico. And with the implementation of liberalization by structural adjustment programs, a sudden decrease in trade taxes occurred and after a while this process led to cheap imports in Mexico. That is why many small businesses could not compete in the market and so a significant number of these businesses failed. Not only small businesses but also the agricultural sector was affected by these consequences. As small business farmers could not compete in the market, many farmers became unemployed. Due to these processes the unemployment and poverty rates increased in Mexico. As Hellman (1997) stated, “Thus the austerity program brought about the collapse and disappearance of the least productive sectors of Mexican industry and, with those firms, the jobs of at least 800,000 workers.”(p.3). Also as Peters indicates (1998), “Official data on unemployment estimates that the open unemployment rate has increased from relatively low levels for the period 1988-94-between 2.6 percent and 3.7 percent- to 6.2 in 1995.” (p. 48).

From the mid 1970`s onward, a prescription of IMF and World Bank Structural adjustment programs was imposed on Argentina by consecutive governments. However the effects of these policies appeared after signing of the 1991 “Convertibility Plan” that changed Argentina`s economic structure, giving rise to a neo-liberal economic system in Argentina. Tebula (2004) expressed the main aspects of the convertibility plan as, “ […] an extreme privatization program; deregulations of all kinds, in particular with regard to the ‘flexibilization’ of labor markets; and a new ‘opening’ to the world economy, in particular concerning financial interests.” (p.174).” The Convertibility Plan was created to decrease the debt crises and control the complex economic situation, but after applying the Structural adjustment policies conditions worsened. Due to the implications of liberalization and market-oriented policies (especially the devaluation of the peso) Argentina’s economy collapsed during the 2000-2001 crises. As Hayami (2003) indicats, “Progressive overvaluation of [the] peso weakened the competitive position of Argentine industries, worsening the balance of trade and increasing unemployment. Underlying this deterioration was the revival of Argentina’s traditional disease — the lack of the governmental fiscal discipline — compromising its successful economic recovery and growth.” (P.8). Under these conditions, many people lost their jobs; unemployment rates and poverty increased suddenly. Reducing wages and increasing taxes destabilized the low-income and working classes. Oliver (2006) stats, “Argentina`s unemployment at the beginning of the 1980s was 2.3 and climbed to 7.3 % by the end the decade, reaching 15% by the end of the 90s." (p.218). Carpio (2000) also mentions that "[…..] in October 1999 more than 48% of the population or 5.8 million people were "newly poor" -- meaning that their living conditions had deteriorated to the point of pushing them below the poverty line." (p. 9)

Under normal circumstances, if more Structural Adjustment policies are imposed, more development should occur. However, when these policies were applied, the conditions for each country worsened. As Oliver (2006) mentioned for Argentina, "The greater the speed and severity of the SAPs adopted, the worse the economic, and social, […] outcomes." (p. 218)

Structural adjustment programs also implemented privatization in both Mexico and Argentina, which led the government to make cuts in public spending, such as cuts on health and education, and to transfer ownership of public services from the state to the private sector for reducing costs.

The IMF and World Bank encouraged both Mexico and Argentina to export more and they convinced them by emphasizing the importance of the export-oriented policies for reducing or paying off their debts. As Carpio (2000) notes, "Such policies assume indiscriminate trade liberalization with the immediate effect of bankrupting small and medium-scale enterprises, which employed 74% of those with jobs. This bankruptcy of small and medium-scale enterprises has resulted in the high level of unemployment and, simultaneously, the increase in job instability." (p. 11) . As a result of these policies both Argentina and Mexico experienced economic crises.

The Mexican crisis (which is also known as the Tequila crisis) and The Argentina Convertibility crisis affected both countries very dramatically. As Pereznieto (2010) states, the "Mexican economic crisis" [...] caused a collapse in the country's GDP of 6.2 per cent, while the poverty headcount increased by 23.7 per cent." And in Argentina because of the crisis "[...] GDP fell by 10.9 per cent during the first year of the crisis and the level of poverty increased by 50.1 per cent." (p.1).

C) NEO- LIBERAL POLICIES IN TURKEY

1) Brief History of Neo-liberal Policies in Turkey

As with many developing countries, neo-liberalism was introduced to Turkey during the 1980`s. The main reason for the global shift to a new economic system was mainly the failure of the previous economic system during the 1970`s .The most important effects of world crises on Turkey were payment balance crises and an increase on foreign dependency. Turkey was faced with economic challenges, in particular due to an increase in the price of petroleum products. Particularly after 1979, inflation rates increased, which worsened the economic conditions. During the same period, developing countries were faced with the same problems as developed countries due to the government-supported economic system, and the withdrawn structure of the economy. So developing countries were encouraged by developed countries to enter into an international market and to reduce the government involvement, by using the concept of the IMF and World Banks standby agreements and stabilization programs. As Sener (2012) mentions, supporters of neo-liberalism claimed that, "[...] market forces have their own adjusting capacities and this replaced the idea of a state providing welfare and justice to the people." (p.8). Through standby agreements and stabilization programs, IMF and World Bank provided a framework which each developing country could adapt to their ideologies, which is what has occurred in Turkey too. As Senses (2003) mentioned, "Turkey had one of the very first encounters with the Washington consensus in 1980."(p.270).

Turkey`s involvement in a neoliberal system started right after the collapse of imports replaced industrialization which was mainly about the protection of the domestic market. Ercan (2007) stated that, "The main drive behind the shift to neoliberal policies was the need on the part of large-scale domestic capital groups to create more surplus value through further integration with the world market." (p.175). Characteristically, neo-liberalist policies in Turkey introduced liberalization of the market, export-oriented economic policies, deregulation of the government, and devaluation of the currency. As Onis and Senses (2003) state, "The emerging neoliberal orthodoxy advocated a new development model based on the primacy of individualism, market liberalism, outward-orientation, and state contraction." (p. 263). It is important to state the importance of the "January 24 decisions" and the military coup of September 12, 1980 which let neo-liberal policies take effect in Turkey.

The "January 24 decision" made new regulations on Turkish economy. It was drafted by Prime Ministry Turgut Ozal under the guidance of the IMF and World Bank in 1980. The main goal of Ozal was to make a shift from import-oriented policies to the export-led growth that would open the economy to external competition, increasing export, reducing the role of the state in the economy, reducing the public sector expenditure, and supporting the foreign investments. As Sener (2012) indicated, "[...] included a 33 percent devaluation of Turkey currency, elimination of price controls and subsidies to state economic enterprises and termination of deficit spending , all to be monitored by the IMF." (p.8). The main goal of the program was to minimize governmental investment and support private capital. As Onis and Senses (2003) state, this program was created "[…] to pursue a systematic program of decreasing state involvement in the economy through trade liberalization, privatization and reduced public spending, freeing key relative prices such as interest rates and exchange rates and lifting exchange controls." (p.264)

The military coup of 1980 also played an important role in the imposition of neo-liberal policies. The military coup allowed for the application of policies that were created in “January 24 decisions”. The main reason for the military coup in Turkey was to end the ongoing conflict and to ensure peace in Turkey. However, instead of ensuring the peace, the new system created an oppressive atmosphere for the public. Right after the military coup of 1980, the military government closed many unions and political parties in Turkey. As Elveren and Galbraith (2008) mentioned, “[…] by repressing the voice of civil society, military was able to push through a neo-liberal agenda without any resistance.” (p.6). The implementation of neoliberal policies accelerated as a result of the military coup. Ozturk (2011) mentions that “These policies were enacted step by step in the following years, when first generals and then the political parties active in this military constitutional order were in power. In 1981, the fixed exchange rate system was gradually abandoned” (p.99). As mentioned by Yilmaz (2012), “The military coup reshapes the state to create a new state that was strong in its dealing with labor and social opposition. The January 24 economic decisions, on the other hand, were helpful in implementing economic measures appropriate to the new requirements of big capital.” (p. 10).

As mentioned before with the applications of the “January 24 decisions” and the military coup of the 1980, neo-liberal policies were applied. Thus the IMF and World Bank created new conditions under the structural adjustment programs for implementing the policies of neo-liberalism. However, the important question is: did neo-liberalism lead to development in Turkey from 1980 to 2003? From an economic perspective it was true that neo liberalism led to economic growth in Turkey for a limited time. However, we should not understand development as synonymous with economic growth; we have to take other variables in to consideration , such as: was the economic growth beneficial for all parts of the society, how was social spending affected by this growth, and how were poverty and unemployment rates affected by it?

As in other developing countries, the main goal of Turkey's neo-liberal policies was to improve conditions for those who already owned the means of production. When we mention the success of neo-liberal policies in Turkey, this success was just for people who were already wealthy. As Ozturk (2011) expresses it, “The transformation process begun in the 1980s created a huge mass of socially excluded people, and by the 1990s these excluded people were beginning to be defined socio□culturally, as ‘slum dwellers” (p.110). After the neo-liberal policies took effect, inequality in income distribution increased, and unemployment and poverty rates also increased. At the same time the Turkish lira started to lose value against the dollar, and for this reason foreign debt increased rapidly. As a result of this process, Turkey experienced several economic crises, in 1994, 2001-2002, and 2008-2009. Ozturk (2011) stated that, “A new social policy understanding emerged after 1990 in harmony with the Washington Consensus, but after the 2001 financial crisis in Turkey, the economic growth that recommenced from 2003 did not see unemployment and poverty reduced by similar proportions “ (p.113).

2) International Institutions and Economic Crises in Turkey

There is an important connection between Turkeys economic crises and international financial institutions. When the IMF and World Bank created stabilization and structural adjustment programs, they imposed the liberalization of the markets as a main condition in restructuring the economy in Turkey. Since the 1990`s, Turkey has experienced several economic crises, which were mainly due to the shift from an import-oriented domestic market to an export-oriented international free market. As in other developing countries, this structural adjustment imposed by IMF and World Bank was one of the main reasons for the Turkish economic crises. Diner (2011) mentions that, "[…], most of the structural adjustment policies intended to change the structure of the economy and the state's role in the economy by changing the organizational and financial structure of the state." (p. 310). Right after the 1980 military coup, the IMF and World Bank started to shape economic policies for Turkey which were generally incompatible with Turkey's interests. Yilmaz (2012) indicated that, "The IMF and The World Bank supervised the restructuring of economic policy and of the economic agencies that formed the international support of previous economic orientation, thus contributing to overall instability and frangibility […]"(p.9).

To compete in external markets, the IMF and World Bank started to emphasize restructuring the economy as a condition of their loans. Their idea of decreasing the domestic savings and reducing the role of the public sector was applied during the 1980`s. Ozturk (2011) mentions that "in 1983 import restrictions were loosened and restrictions on currency exchange establishments freed up. After a while, the foreign exchange regime was altered and citizens allowed to obtain foreign currency for personal use. Various arrangements were made giving incentives for foreign investments meanwhile, conjectural fluctuations increased, in both frequency and intensity." (p.99). In 1988, IMF and World Bank imposed a new stabilization program, which led Turkey to institute radical changes in its economic structure. The IMF and World Bank pointed to high inflation and speculative fluctuations in exchange rates as the rationale for the new stabilization program. Ozturk (2011) stated that "more radical regulations were made including free exchange rates in the markets, foreigner operations in the Istanbul Stock Exchange short term capital movements" (p.99).

The economic crises in Turkey were mostly the result of the 1989 capital account liberalization policies, which led to the convertibility of the Turkish lira. Onis and Senses (2003) state that, "Reliance on debt-led growth, without paying sufficient attention to the need to increase domestic savings, improve the long-term competitiveness of the real economy and establish an adequate regulatory framework for their financial sectors, rendered such economies increasingly vulnerable to speculative attacks and frequent financial crises."(p.268). The 1989 convertibility plan removed the controls on capital outflows, and because of this, the market became externally liberalized. However, the capital account liberalization pressed the government to create a freer atmosphere for more liberalization. For this reason, Turkey started to struggle under rapidly increasing inflation rates and also under rising interest rates. Turkey started to borrow money for decreasing the interest rates. Although there were governmental efforts to reduce the inflation and interest rates, they did not work. During the 1990's Turkey tried to open its market to foreign investments and as a result, it redoubled the efforts of previous policies such as, reduced taxes for foreign investors, convertibility of the Turkish lira, and privatization. Right after the 1994 currency crisis, the government instituted the April 5th Program under the guidance of the IMF. Koyuncu (2004) writes about the aims of the program, "[…] It aimed to compress the domestic demand by cutting government expenditure and freezing nominal wages […]" (p.6). Even though the crisis of 1994 was a short-term economic crisis, the consequences of the crisis were very intense. An increase in unemployment rates, a decrease in real wages, and an increase in the poverty rate were some of the problems that Turkey faced after the 1994 crisis.

For the last 30 years, Turkey has not had a stable economy; after the crisis Turkey tried to stabilize its economy by becoming more involved in the world economy, especially by implementing IMF oriented policies which ignored the social structure of Turkey. As Onis and Senses (2003) mentioned, "[…] the IMF has, in recent years, been emphasizing the importance of regulatory reforms, particularly with reference to banking and finance." (p.278). The period between the economic crisis of 1994 and that of 2001-2002 saw the failure of finance-based development introduced in Turkey by the IMF and World Bank. After the 1994 economic crisis, Turkey stabilized its economy in 1995; however, this did not last long. In 1997, the rise in inflation rates led Turkey to sign its 17th standby agreement with the IMF .The main purpose was to eradicate the inflation problem and achieve single digit inflation in Turkey. As Miller (2005) explained, "The December 1999 programme set out to tackle inflation and interest rates through a new monetary policy, based on an exchange rate stabilization anchor which incorporated a pre-announced and staggered move through widening bands to a free float." (p.3). As Dufourt and Orhangazi (2009) indicated, "The government announced it would curtail spending via a reduction in labor costs and a reform of social programs; wages of public sector employees were to be frozen in real terms, while the financing and accessibility of important social programs, such as social security, were cut." (P.104). It is important to mention that before the 1999 IMF standby agreement, Turkey signed a Staff Monitoring program with the IMF that was intended to reduce inflation in Turkey through budget, monetary, and structural reforms. This program became the basis of the 1999 stand-by agreement. However, both of these programs resulted in the collapse of the economy in 2000-2001. Yeldan (2008) notes," During the year 2001, GNP fell by 5.7% in real terms, consumer price inflation soared to 54.9%, and the currency lost 51% of its value against the major foreign monies."(p.1). As a result, the poverty rates increased very dramatically. The main reason for this rise was the devaluation of the Turkish Lira. Soon after, unemployment increased; it is important to note that even educated people became unemployed. Also, the increases in taxes worsened the conditions for many people. As Dufourt and Orhangazi (2009) states, "The tax system became increasingly regressive, and real wages and the labor share decreased markedly after the crises." (p.115).

Right after the crisis, many people lost their jobs because of the failure of the companies. Many employers made cuts in the wages of their workers in order to protect their profits. As a result of these processes, the disparity between classes increased. As Dufourt and Orhangazi (2009) mentione, " […]the consequences of the Turkish financial crisis of 2000-2001 were largely beneficial to capital, and to the detriment of workers" (p.101).

3) Social Impacts of 2000-2001 Crises

a) Public Spendings

Beginning in the 1980s, involvement in the neo-liberal economic system affected Turkey very dramatically, resulting in the 2000-2001 economic crisis. During crisis after crisis, governments have implemented several policies that resulted in minimizing public expenditures under the guidance of IMF and World Bank to reduce the adverse economic effects. The public spending was reduced very dramatically in the name of development. Increases in taxes, cuts on wages, and the reduction of educational, health, and social welfare expenditures put the burdens of crises on the public sector. Roskam Ellen argues (2009) that;

Key policy elements embedded in liberalization include the privatization of State-owned industries with education, health, and welfare moving from government-provided services to the private sector where they become marketized, commodified, and commercialized; de-regulation leading to reduced State control and reduced barriers to the mobility of capital, goods, and services; reduced State control over the labor market including reduced social protections such as minimum wage, work hours, and employment security; introduction of a "social safety net" approach to social protection characterized by reduced social welfare benefits and more targeting, selectivity and conditionality; the elimination of subsidies; limited access to quality education for all as well as to social security, pensions, health insurance, and unemployment insurance; less progressive taxation; and the privatization and liberalization of social policy. (p.20).

The reduction of public spending is an important issue that needs to be resolved. In general, when talking about the wealth and development of a country, it is important to mention its public spending. Like many developing countries, Turkey applied several policies (such as increasing domestic taxes and reducing public expenditures) to reduce the inflation rates and the international rates. However, these reductionist policies did not help Turkey to reduce its debts. It is important to mention that these policies resulted in short term improvements. The Turkish crisis of 1994 could be seen as an example of this. Right after the crisis of 1994, the government initiated several policies that insisted on the reduction of public spending and that increased the domestic taxes to diminish the severity of the crisis. Even though these polices reduced the severe results of the crisis, this did not last long; in 1998, inflation rates increased very dramatically. As Koyuncu (2004) expressed, "Consequence, domestic and external debt figures increased enormously. While the outstanding domestic debt jumped from 21.7 percent in 1998 to 29.3 percent in 1999 with respect to GNP, total external debt soared to 54.9 percent of GNP in 1999, from 46.8 percent of the previous year." (p. 100)

As with the 1994 crisis, after the 2000-2001 crisis, the government ignored the problem of public spending because of policies imposed by IMF and World Bank and their conditionality. Diminishing government spending by reducing public spending generally goes hand in hand with the main policies of the neo-liberalism, i.e., reducing governmental investments. For neo-liberals, the public sector will find its own path in the free economic system.

Chart1;

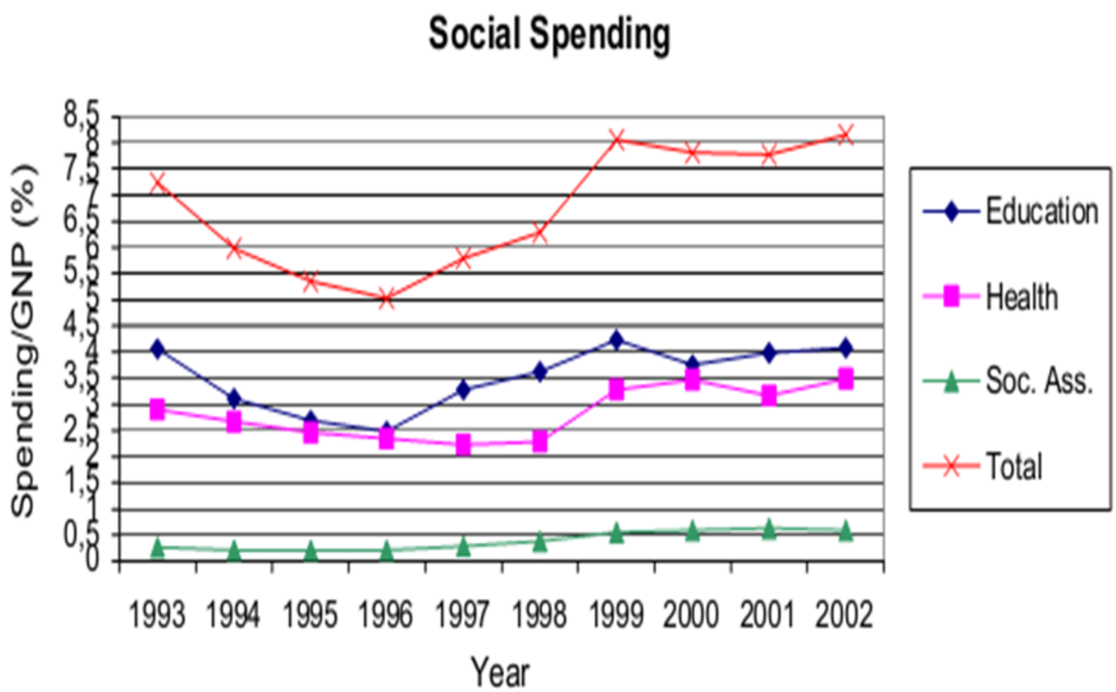


Figure 5.3 Social Spending/GNP Ratio by Category, Turkey, 1993-2002

Sources;

As seen in Chart 1, the public expenditure on health, education, and social assistance decreased during the crises.

As in many areas, the crises affected the educational spending. As Koyuncu (2004) mentioned, “In 1997 educational spending rose to 12 percent of all public expenditures […]. Then in 2000, it fell to ten percent, and in 2001, it was at is lowest level.” (p.130). As seen in the chart the spending on education/GNP diminished from 4.3% to 3.3%

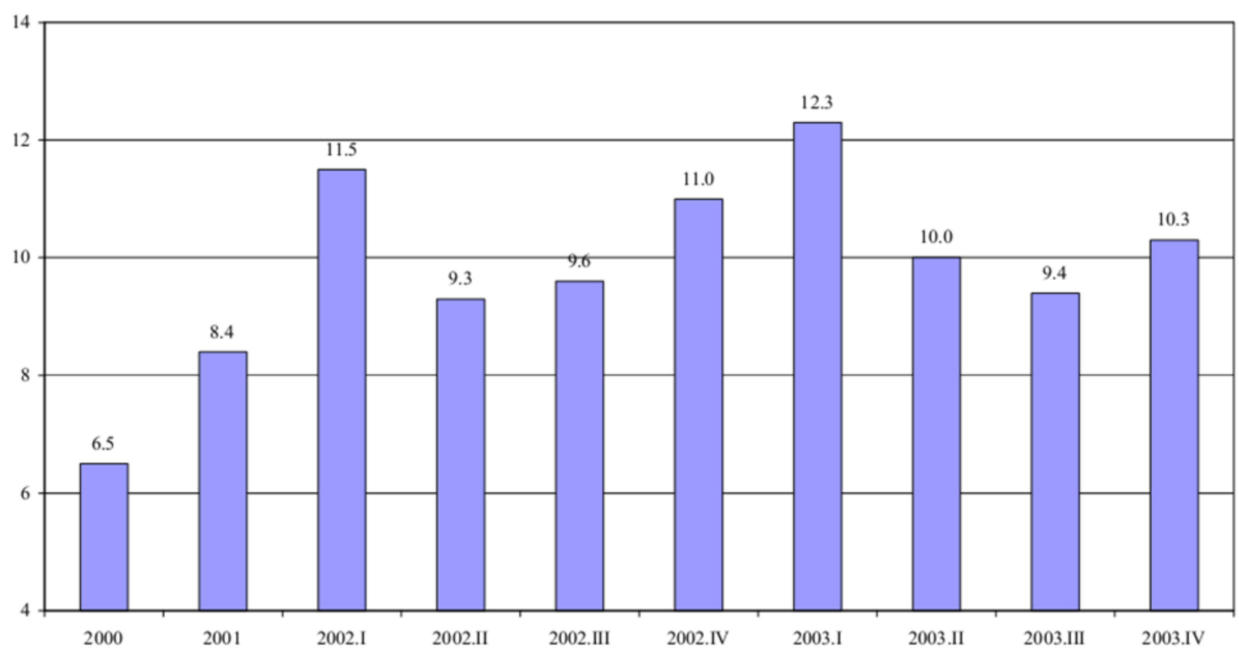
The IMF and World Bank directly and indirectly affected the education system of Turkey; by applying neo-liberal policies, those two institutions started to restructure the education system of Turkey. They provided funds for education, but the main goal of their support was to raise a generation shaped by the neo-liberal system. In normal circumstances getting free education is the right of the each person in the Turkey. However, with the idea of the privatization of all governmental institutions, education started to privatize and thus people lost their awareness of their rights of the people. According to Beltekin and Ozdemir, the IMF and World Bank mandated several conditions even for educational institutions. They made decisions about when, where, and how these loans would be used in education; thus they embedded the market demands by using the educational system. As Roskam (2009) writes, “Marketizing educational services creates population shifts in access to labor market opportunities and quality of jobs for the poor or lower income groups who are unable to pay for private educational services before young people enter the labor market. This translates into increased class differentials and increased income inequality in a country that may not be able to absorb well the shocks that accompany a rapid growth in social disparities.” (p.71)

As in the educational system, expenditures for and investment in the health system were determined by the privatization of this sector. The privatization of the health sector started with the structural adjustment programs of the IMF and World Bank, which sought to open this sector to the free market while reducing the government's investment in these areas. For instance, basic providers of the health care facilities started to pay more and payments for medical supplies increased dramatically. The crises in Turkey affected the health system very dramatically; this was especially apparent in the 2000- 2001 crisis. The rate of the spending/GNP on the health system shows a dramatic reduction during 2000-2001, as seen in chart 1. The rate of the public spending decreased from 3% to 2.6%.

The IMF and World Bank pay more attention to controlling the crises of developing countries without thinking how their policies will affect people in these countries. The main reason for helping developing countries after a crisis was that each crisis was seen as a barrier to neo-liberalism. These policies did not lead to improvements for the developing countries; even after several crises in Turkey, IMF and World Bank continued to apply structural adjustment and stabilization programs. These institutions tried to stabilize the economy by cutting social spending and suppressing real wages. These applications worsened the living conditions of the public.

b) Unemployment

Chart 2



Sources; Yeldan, Erinc, Turkey 2001-2004 IMF Strangulation, Theightening dept

Unemployment is an important indicator of the wealth of a country. When the unemployment rates increase, that shows that the life conditions of that country have worsened. There is an important relationship between crises and unemployment. The unemployment rate is one of the main indicators of the crises in countries and an important indicator for worldwide crises. As seen during the 1960`s, a rise in unemployment was one of the main indicators of the shift from a Keynesian economy to a neo-liberal economy.

In Turkey, during these crises the unemployment rates increased very dramatically. The effects of unemployment generally have consequences for the middle class and the lower class. It is obvious that unskilled workers and informal sector workers were affected by these crises more than others. Yeldan (2008) indicates, "The burden of adjustment fell disproportionately on the laboring classes as the rate of unemployment rose steadily to 10% and real wages were reduced abruptly by 20% upon impact in 2001 and have not recovered to this day." (p.)

Unemployment generally resulted from the macroeconomic application of neo-liberal policies in Turkey. The downsizing of the state's role in the economy is one of the reasons for the increase in unemployment since the 1980s. When the state downsized, employment in the public sector was restricted and real wages decreased, causing general economic slowdowns, often with crises, resulting in rises in unemployment. (P. 106)

c) Poverty

With the neo-liberal policies, an important transformation occurred in the economic and political structure of many countries. Especially due to the main strictures of neo-liberalism, the inequalities between classes increased dramatically. Under these circumstances, while people who already had the means of production earned more, other people started to lose more. With the embedded neoliberal policies and economic crises, the inequality in income distribution and the differences between classes increased very dramatically, and the poverty rates began to rise. During the economic crises, poverty rates reached their highest levels because of the governmental cuts to wages and public expenditure. Ozturk (2011) states that "the urban poor who had previously worked for the state or local authority in official jobs with low wage salaries but job security began gradually to disappear."(p.106). Even though the IMF and World Bank created new policies under the name of reducing poverty, that result was not achieved. As Ekinci (2003) stresses, "After the financial crash of 2001 a new program was put into effect, creating even worse conditions for this segment of society. In the last three months, prices of products and services such as fuel oil, liquid gas, telephone service, electricity and other necessities like sugar and tea saw perpetual hikes and wage increases for working people were limited, accelerating their downward slide on the poverty scale." (para.4)

Before explaining how poverty increased, it is important to explain the way in which poverty is measured. Turkeys Census started to collect data after the 2002 which is why Turkey`s data about poverty during the years 1994-2001 were created by the World Bank. As a result the measures of the World Bank uses for measuring the poverty rates in Turkey. Koyuncu summarizes (2004) the measures the World Bank uses as, " i) an internationally standard poverty line of "One-Dollar-A-Day per capita; ii) a minimum food basket cost line; iii) a basic needs basket cost line; and a poverty relative line set at one half of national median income." (p.124).

CHART 3;

Table 5.8 Poverty in Turkey, 1994-2001

	Turkey		**Urban**	
Poverty Line	**1994**	**2001**	**1994**	**2001**
$1/day per capita (at 1985 PPP prices)	2.5	1.8		
Local cost of minimum food basket	7.3	…	6.2	17.2
Local cost of basic needs basket	36.3	56.1		
One-half of national median income	15.7	21.5		

Sources: World Bank (2000b: 36, Table 1; 2003a: 11-23)

Source; Koyuncu (2004) , (P.124)

As Koyuncu (2004) mentions, "One Dollar –A-Day line in 1994, 2.5 percent, has fallen down to 1.8 percent in 2001" (p.124).

During economic crises, it is payment cuts and increases in unemployment that create the conditions for poverty. At these times, an increase in poverty is inevitable. During the 2000-2001 crisis, the reduction of government expenditure and the increase in taxes led to many people living at the poverty line. As Ikinci (2003) mentions, " […] increasing numbers of working people have found themselves in a state of exhaustion and desperation. Monthly income for an average low-income family varies between TL 200 million ($ 20) and TL 500 million ($300). Almost half, or 48 percent, of

Turkey's population belongs to this low-income category while their share of the national income is only 32.5 percent." (para.3)

Chart 4

The poverty rates of individuals according to poverty line method

	(2002)	(2003)	(2004)	(2005)	(2006)
Food Poverty	1.35	1.29	1.29	0.87	0.74
Complate Poverty (food+nonfood)	26.96	28.12	25.60	20.50	17.81
Below 1$ per capital per day	0.20	0.01	0.02	0.01	---

Sources; TUIK, http://www.tuik.gov.tr/

As seen in this chart, the effects of the economic crises lasted until the end of 2002. The rate of the below 1 per capita per day was 0.20% in 2002 and thereafter it showed a reduction.

D) Conclusion

Neoliberal policies, SAPs, and conditions ruined the economies of many developing countries. As seen in Turkey, for example, many of these policies led to a series of crises which resulted in unemployment, poverty, and cuts to the public sector. In particular, the conditions set by the IMF and World Bank caused severe problems for developing countries. In recent years, developing countries have fought debt crises and poverty due to policies imposed by the IMF and World Bank. Those policies generally set conditions for lending money to developing countries. And these conditions have generally imposed the ideas of privatization, liberalization, free market, and export-oriented growth on developing countries. As a result, developing countries accepted those conditions in order to get loans from IMF and World Bank. However, developing countries generally export raw materials, which are very cheap; they then import the same material from developed countries after it has been processed, therefore paying more to the developed countries. Many of those countries had to keep their currencies stable, but since they were selling their products cheaply they could not stabilize their currencies without exporting more and importing less. In developing countries governments also decrease their spending for a stable economy. To make the economy more stable, the governments spent less, which reduced consumption and led to crises in many countries.

As seen in the example of Turkey, the burdens of neo-liberal policies fall on the public sector. Since the 1980`s, Turkey has made several agreements with IMF and World Bank with the expectation of reducing its debt and becoming a developed country. However these expectations could not be met, as those agreements generally resulted in crises. It is true that some of the developing countries have improved their economies, but can they be said to have developed? Putting a price on economic improvements does not mean that the country develops. To diminish the effects of economic crises, fiscal policies were implemented which minimized public sector expenditures. Due to this implementation, Turkey's unemployment rate increased, and the wages of workers were reduced; as a result, the standard of living for many people was reduced very dramatically. As Diner (2011) mentioned, "Generally, it is the popular classes that resist these policies because they are directed at decreasing their wages and benefits, i.e. their share of the national resources" (p. 310). For this reason, inequality between classes increased very dramatically in Turkey.

If the main goal of the World Bank and the IMF is to help their members improve their conditions, they have to take into consideration the countries own development processes because each of these countries has its own unique structure. Firstly, each of these countries has a different path to improvement that's why such institutions need to take those differences in to considerations. Secondly, the conditions imposed by Structural Adjustment Programs must take the public sector into account. Just putting a price on to economic improvement (such as liberalization, higher exportation , deregulation, making cuts to the public sector, involving in free market more) results in short term development. However by paying more attention to the public sector, each country could build a more stable development path way

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