

## Commentary

# Global Economic Crisis and Turkey

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The current global financial crisis starting with the subprime crisis in the US is by no means new in the history of capitalism yet outreaching its precedents to the degree that it is recognized as the worst one since the Great Depression of 1929. Despite the attempts of the US Treasury, Federal Reserve and mainstream economists to constrain the current crisis in the financial realm, it manifests the structural problems of the real economy, which are no longer possible to ignore. The long-term problems in the capital accumulation and the weakening of aggregate demand made advanced economies far less dynamic and more vulnerable to crisis as such over the last thirty years. The crisis in the financial markets made these problems visible, while this crisis was not the real cause of those problems. In late 2007, the housing bubble in the USA started to deflate, the sub-prime mortgage crisis began to hit the major Wall Street Investment Banks, and the recession in the US economy was on the way. The worsening situation of the

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US economy with the bankruptcy of major banks and credit agencies urged for the government intervention in financial markets.

As a remedy, the US government took action and initiated an extensive stimulus program, which first headed to rescue the financial institutions by giving out large-scale loans and even resorted to the nationalization of troubled financial institutions. This had caused significant political controversies. On the one hand, believers of the neoliberal creed found it despicable that taxpayers' money was being used to save the Wall Street. They simply opposed to government intervention in the economy regardless of the severity of the crisis. On the other hand, critics of the bailouts claimed that this stimulus was too much focused to fix the banking system, while the government policies should have dealt with other problematic areas of the economy such as the rising unemployment. As of January 2010, the President of the United States announced that new stage of stimulus plan was to target small-scale businesses and job creations for the 13.2 million unemployed of the country. All these discussions about the retreat of Keynesianism led to a crucial question about the finance-driven system: Is neoliberalism now over?

The financial crisis itself was first evaluated as a lack of liquidity by the commanding heights of the global economy. Thus, the first reaction was to pour money into financial markets in order to decrease the interest rates. The myth of self-correcting markets was replaced with a cry for governments to save the corporations, once again. As the shock became deeper and as it spread to the European Union and to the countries in the periphery and semi-periphery, it became obvious that mere financial intervention was not helping to overcome the structural problems of the global economy. The last thirty years have already been marked with the neoliberalization of the world economy along with the rise of uncontrolled financial flows, the increasingly uneven geographical development, structural adjustment programs, and economic technocracy. The financial explosion of these years concealed the stagnation tendencies in the economy.

This already gloomy picture looks even darker when we switch our focus to Turkey. When the subprime crisis began to shake the international finance markets, it was obvious that an economy as fragile as Turkey's would not be immune to the devastating effects of the spreading crisis. The global crisis hit Turkey in September 2008, contrary to the wishful thinking or misleading expectation by the Prime Minister that the crisis was supposed to pass by Turkey. The crisis-prone economic structure of Turkey was not unique. Like all other emerging markets, crisis was the destiny of the Turkish economy on its way of integration with the rest of the world economy. Even if it was not the negative impact of the global economic crisis that pulled the trigger; Turkey's problematic growth strategy was eventually going to end up with a domestic economic crisis. And actually, the decline in GDP growth rate started even before the crisis hit the Turkish economy.

Following the 1997-1998 East Asian economic crisis, Turkey entered into a deep financial and economic crisis period in 1999, hitting the bottom in 2001. Meanwhile, under the surveillance of the IMF and the World Bank, the mid-term program named "Transition to Strong Economy" had started to be implemented in 2000. In 2002, when the Justice and Development Party (JDP) took power, they took the guidance of this program until mid-2008 in their macroeconomic policies. The mid-term growth strategy of this program relied on the foreign capital inflows. Until 2008, Turkey had been successful in attracting foreign capital thanks to the loyalty of the JDP to the neoliberal doctrine and the growth of the global economy. This period between 2002 and 2007 was marked with a recovery out of the ruinous shock of 2000-2001. In correspondence to the recovery, the national income grew at a high rate that was just large enough to meet the decline of the economy after the crisis in 2001. Moreover, this growth was also misleading since it lacked the solid elements of sustainability. It rests on high unemployment rates, low-cost labor, an increasing gap in income distribution, growing external deficit, an ever-increasing current account deficit, privatization, poor fixed capital investment, and foreign capital inflows. Since most of the financial

inflows were by and large short-term investments, this was a highly unreliable source of growth. The economic choice of the JDP actually fits in the policies of the New Right: strong adherence to neoliberal economic policies with a conservative political and social strategy. This type of conservatism has an ontological and historical alliance with economic liberalism. The neoliberal-conservative policy-set transforms the role of the state from a social one to a charity organization, depicts citizens as customers, limits the human rights to the freedom of exchange reduces social problems into the concerns of individuals, and addresses market for all political controversies. Moreover, this strategy claims that state should retreat from the economy and promotes the privatization of all public goods and enterprises.

Under these circumstances, the current global financial crisis instigated another crisis in the Turkish economic history. The figures show that crisis did not pass by Turkey at all. It rather brought about the recession of 2008-2009. The reversal of capital flows set off a sharp decline in the GDP growth, reaching down to -7% in 2009. Once the positive effects of the global trends in growth and capital inflows were removed, unlike the period after the 2001 crisis, now the vulnerability of the Turkish economy came to the fore. The growth between 2002 and 2007 did not have any positive impact on unemployment: It was 10.5% in 2003 and 9.7% by 2007. With the crisis, the unemployment rate even went up to 13% in October 2009. In addition to the fall in real wages, the social outcome of the crisis for the Turkish economy is simply catastrophic. The nightmare of the Turkish economy since the mid-1970s, high inflation rates, was under control in the growth period after 2001. In 1999-2000 it was around 60% and it fell down to single digits by 2004; in 2008 it was 10.4% and in 2009 it went back to 6.4%. The real exchange rate was depreciated around 40% after the 2001 crisis. The depreciation of the real exchange rate with the current crisis had started to be appreciated by mid-2009. Although appreciated domestic currency and low inflation rates might appear as the result of this successful economic policies by the JDP government, they came with the price of an ever increasing current account deficit.

The current crisis, turned another stand-by agreement with the IMF into an exit strategy for JDP as a way out of this deadlock in the economy. Given Turkey's long history with the IMF in terms of numerous stand-by agreements, this is certainly nothing new. It is not a coincidence that to have a stand-by agreement with IMF is once again on the agenda, although it was all over the news that Turkey heroically resisted an IMF bailout in 2008. Turkey had signed 19 stand-by agreements with the IMF since 1961. The last program ended in 2008, and even without a new agreement, Turkey showed strong commitment to the structural adjustment program. Once it became clear that capital was flowing away from Turkey and the growth strategy was in danger, a 'medium term fiscal program' was declared by Turkey in September 2009 in order to give the needed signals to the IMF for a new credit line to boost the financial markets. As of February 2010, the negotiations with the IMF are still going on and a new agreement is likely to be signed soon although foreign capital started to return back to the Turkish economy by November 2009. Nevertheless, the short-term financial policies as a remedy to the economic crisis are no longer sustainable. The government needs external leverage to keep up with the recovery. Central Bank is not able to lower interest rates any further, as public assets and paper continue to lose value. This is why the IMF, which had been kept out of the Turkish economy in 2008, will probably have another agreement with the Turkish government in 2010. However, it seems that IMF will push for a downsizing in the budgets of the municipalities, while it is a major policy orientation of JDP to use the resources of the municipalities, which it politically controls, for its populist redistribution policies. Thus, the relations between IMF and JDP do not seem to be in easy terms.

Once again, the current economic crisis illustrates very well that neoliberalism is only possible when the losses are socialized and the profits are privatized. The figures of the macro economy that are highlighted by the JDP do not reflect the reality about who will be paying for the losses. It is certain that the payers will be once again the middle and low-income population, as this was the

case in previous economic crises. To keep up with a substantial growth rate is meaningless under these circumstances, unless it ameliorates the income inequality.