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APPLICATION OF POST WASHINGTON CONSENSUS POLICIES IN TURKEY

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ABSTRACT

The paper begins with the analysis of transition from the Washington Consensus to Post-Washington Consensus and the implications of this transition. The basic distinctive feature of Post-Washington Consensus is its allegedly pro-poor orientation. The redefinition of the neoliberal agenda, that targets growth with equity and poverty reduction also bring about "new social policies".

Paper asserts that this process could be observed during the Justice and Development Party (JDP) period in Turkey and this has serious repercussions upon the income distribution. Paper both focuses on the WC and PWC periods of neoliberalism in Turkey and examines the effects and results of PWC policies on Turkish economy and society; also evaluates the sustainability of the growth of Turkish economy in the future.

Key Words: Neo-liberalism; Washington Consensus; Post Washington Consensus; 2001 Crisis of Turkey; Post crisis development and growth policy of Turkey as an emerging market.

Jel Codes: O1; O15; I1; I2; I3.

1. INTRODUCTION

Neoliberalism not only determines the economic policies but also the reproduction of the social and economic relations on the basis of a new set of rules. These new set of rules strongly support free market fundamentalism, individualism and minimum state intervention. Based on structural adjustment and stabilization policies lead by the IMF and the World Bank (WB), neoliberal policies materialize by the application of Washington Consensus (WC) principles. According to neoliberal policies and WC principles, countries are poor because of misconceived state intervention, corruption, inefficiency and misguided economic incentives. Development is the inevitable outcome of a set of 'appropriate' incentives and outward-looking neoclassical economic policies, including fiscal restraint, privatization, the abolition of government intervention on prices, labor market 'flexibility', and trade, financial and capital account liberalization. Within this framework, related titles with development and income distribution were left to market forces and it is expected that achieved growth rates would also be functional for the elimination of the inequalities.

One of the consequences of the globalization and neoliberal policies on global scale is increasing inequalities in spite of the increasing growth rates. Increasing inequalities, the emergence of the crisis (Mexico; Asia) and arising discontents from the related policies lead the emergence of new form of policies differently from the (WC). At this point, Post Washington Consensus (PWC) policies that have been also carried out as a part of comprehensive growth strategies within the WB came into fore. Although it is not a breakdown from the neoliberal policies, PWC mostly concentrate on institutional setting of economic activity, the significance of market imperfections, and the potential outcomes of differences or changes in institutions. The PWC rejects the WC for its antipathy to state intervention, and questions the conventional stabilization policies for their adverse short- and long-term impacts. The redefinition of the neoliberal agenda, that targets growth with equity and poverty reduction also bring about "new social policies". Hence, rather than focusing growth, inequalities and poverty reduction became one of the main target of the policies. Accordingly deregulation of the institutions, with a given importance to the "poor" by redefining the social policies could be named as "neoliberalism adjustment with human face".

Neo-liberal transformation of Turkish economy has started by the Decisions of 24th January 1980. There were three phases of Neo-liberalism in Turkey. In the initial period of neoliberalism (1980-1989) the labor costs were suppressed so that the exports were pumped and the capital movements was kept under control. In the second phase of neoliberalism (1990s) the losses of the labor were partially compensated and the distribution conflict lead to fiscal imbalances and in contrary to these capital movements were liberalized. In the third period of neoliberalism after one of the deepest crisis of Turkish economy (2001) the fiscal imbalances was kept under control and the distribution relations were determined by the market forces.

This paper both focuses on the WC and PWC periods of neoliberalism in Turkey and examines the effects and results of PWC policies on Turkish economy and society; also evaluates the sustainability of the growth of Turkish economy in the future.

2. WORLD-WİDE POLICY REFORM OF NEOLİBERALİZM

During the final two decades of the twentieth century, development theory and practice were dominated by a single paradigm that placed market forces at the center of policy. There was a wave of market oriented economic reforms, the likes of which have never been seen. Financier George Soros (2002, pp. 4-10) termed that prevailing paradigm "market fundamentalism". In Latin America in particular the theory and practice came to be known as "neo-liberalism". Many however simply call it "free market economics". In 1990 economist John Williamson deemed it appropriate to term the policy core of this period "the Washington Consensus" (1990 p.9).

2.1. Washington Consensus

According to Washington Consensus an appropriate economic strategy emphasizes fiscal rectitude, competitive exchange rates, free-trade, privatization, undistorted market prices and limited intervention (save for encouraging exports, education, and infrastructure). In 1980s many countries began to shed their import substitution policies and endorsed marked oriented ones. Williamson supplied us a useful list of policy desirata. While Williamson determined ten major policy tenets, the list concentrates primarily in three areas of reform: liberalization, deregulation and privatization. Ronald Reagan, Margaret Thatcher and Helmut Kohl all came to power in the early 1980s as revolutionaries who would diminish the role of government and unleash market forces to bring prosperity to their nations. This free market revolution became a global revolution. The Washington Consensus became a global paradigm that dominated Third World development policy. Over the course of 1980s these policies were spread to a majority of developing nations. The export of Washington Consensus policies continued throughout the 1990s. These policies exported to the countries of the former Soviet Union and Eastern Europe after the collapse of the Berlin wall. Turkey was also one of the developing countries which adopted economic policies similar to Washington Consensus and tried to increase the integration of Turkish Economy to the world Economy in 1980s. Washington Consensus paradigm dominated development theory and practices across the globe during 1980s and 1990s.

This free-market revolution became a global revolution because of inter related set of developments among multilateral institutions that moved center- stage during this period, the Washington consensus became the global paradigm that dominated third world development policy. In 1980, the World Bank initiated a new policy-based lending instrument called “structural adjustment loans” that mandated that countries advance deregulation privatization and liberalization. In 1982, after Mexico’s inability to service its external debts, the IMF began to play a greater role in pressing Washington Consensus policies on debtor nations as the macroeconomic conditionality for new private and public sector loans. Over the course of the 1980s, these policies were spread to a majority of developing nations. The reforms were strongest and most sustained in Latin America, where countries like Bolivia, Mexico, Argentina, Peru, Colombia, and Brazil joined Chile in orthodoxy. But this was very much a global phenomenon “stabilization” and “structural adjustment” became the primary preoccupation of government leaders in Asia and Africa as well. Even India, the giant archetype of a closed import substituting economy among developing countries embarked on a process of economic liberalization in 1991(Rodrik, 1996,p.9).

In November 1993, the governments of the United States, Mexico and Canada passed the North American Free Trade Agreement (NAFTA) that knocked down barriers to trade and investment and reigned in government control over economic activity. A year later the WTO was created with the strong enforcement powers for Washington Consensus policies.

While each of these new developments met stiff resistance from citizen groups across the globe they were passed with strong elite consensus. The Washington Consensus became the only way; the desirability of its policies was presented as an objective economic truth.

World-wide acceptance of neo-liberal policies between different governments raised the important question of why so many countries have suddenly caught the reform bug. Some of the professional economists believed that the new orthodoxy was built on two mutually reinforcing pillars (Rodrik, p.13):

One was the set of policies that had been tried by the import substituting countries and had failed; the second was the set of successful policies implemented by the East Asian Tigers:

Once upon a time, many countries of the third world followed import-substitution policies. Such policies included import controls, overvalued exchange rates, binding ceilings on interest rates, a heavy dose of public ownership, and pervasive price regulation. Ann Krueger has been the most famous economist in documenting and popularizing the short comings of import-substitution policies. She points out a multitude of reasons for the initial adoption of these policies. Newly independent governments had a strong desire for industrialization, and the apparently successful example of Soviet planning invited emulation. Moreover the economic ideas of 1950s and early 1960s tended to dismiss the benefits from trade and emphasized the need for physical capital accumulation and infant industry promotion. According to Anne Kruger there was a strong emphasis on the primacy of market imperfections. Market failures were thought to be relatively strong, while it was assumed that governments could correctly identify and performs economic functions. Virtually no attention was given to the possibility that there might be government failure (Kruger, 1993, p.49) and there was plenty of government failure. Not only did many infant industries fail to mature but many countries succumbed to stop-go cycles driven by excessive government spending. Kruger explains that in viewing the government as a “benevolent social guardian” most economist had ignored a number of important forces at work. Individuals in the public sector were apt to follow their own selfish interest. They would be lobbied by pressure groups aiming to impose their own agenda on a largely docile majority. Policy interventions would create rent seeking incentives diverting entrepreneurs from productive activities. Finally the informational disadvantage of government bureaucracies over market participants would doom even the best-laid plans to inefficiency.

Meanwhile, four East Asian economies were making a mockery of the export pessimism that had persuaded policy makers elsewhere to follow an inward oriented strategy South Korea and Taiwan, in particular, were able to engineer a remarkable increase in their growth rates, thanks to sharp jumps in their investment and export efforts during the mid-1960’s. Among professional economists, there soon developed the view that the East Asian miracles could be attributed to market-oriented policies and the reduced role of government intervention (Ranis and Mahmood ,1992, p. 138).

If we turn back to the question of why so many countries have suddenly caught the reform bug, we can list, at least three reasons for this question:

- Governments received advice of international institutions like IMF, WB, WTO
- Failure of import substitution development strategy (crisis)
- Success of export oriented development strategy of East Asia

2.2. Post Washington Consensus

In the late 1980s and 1990s, the hegemony of the WC came under attack both in the academia and in the emerging social movements, with three criticisms pushed to the fore.(Saad-Filho, 2010) The first was inspired by the notion of the developmental state, thought to apply to the successful East Asian newly industrializing economies (NIEs), with Japan as the precursor, followed by the four “tigers” (Hong Kong Special Administrative Region of China, Republic of Korea, Singapore and Taiwan Province of China) in the 1960s and 1970s, followed, in turn, by China, Indonesia, Malaysia, Thailand and Vietnam. In all these cases, it was found that the state had violated the main tenets of the WC through long-term planning, protectionism, directed finance and other departures from the free market.

The second approach focused on the notion of “adjustment with a human face.” Irrespective of the merits of WC in bringing stability and growth, the adverse impact of the WC policies on those in, or on the borders of, poverty was highlighted by a growing literature beginning with Cornia, Jolly and Stewart (1987). They documented the human costs of the crisis, showed that poverty was rising in the “adjusting” countries, and demonstrated the tendency of the adjustment costs to fall on the most vulnerable. The WC stood accused of being at least oblivious to the disproportionate burden on the poor arising from the processes of adjustment and stabilization (see Chang, 2003 and Chang and Grabel, 2004).

The third criticism of the WC concerns the interface between economics and politics. The closely related transitions to neoliberal economic policies and to political democracy in several countries in the South and in Eastern Europe have introduced a potentially severe tension because of the deployment of democratic and supposedly inclusive political systems to enforce exclusionary economic policies. The neoliberal economic policies demand a state hostile to the majority, even though a democratic state should be responsive to majority pressures.

Discontent with WC policies spread since the 1990s, with disquiet reaching even some Washington institutions. Nevertheless, the IMF has continued to stress the “virtues” of the reforms, and to blame the poor countries for their own failures (see, for example, Krueger, 2004) The World Bank, on the other hand, has scrutinized WC policies more carefully, starting with the implications of the East Asian success and recognizing the association of this success with the distribution of income and assets, mass education and state guidance of investment.

The intellectual thrust of the PWC has been to shift the analytical focus away from the neoclassical emphasis on competition and the virtues of (perfect) markets, and towards the institutional setting of economic activity, the significance of market imperfections, and the potential outcomes of differences or changes in institutions. The PWC rejects the WC for its unwavering antipathy to state intervention, and questions the conventional stabilization policies for their adverse short- and long-term impacts.

Inspired by new institutional economics, the PWC can provide a more nuanced understanding of economic development (see Harriss and others, 1995). For example, the PWC acknowledges that at the core of the development process lies a profound shift in social relations, the distribution of property rights, work patterns, urbanization, family structures, and so on, for which an analysis limited to macroeconomic aggregates is both insufficient and potentially misleading. Policy-wise, the rhetoric of the PWC is comparatively state-friendly but in a limited and piecemeal way, with intervention only justified on a case-by-case basis, should it be demonstrable by mainstream criteria that narrow economic benefits would most likely accrue. Despite its obvious limitations, the PWC offers a rationale for discretionary intervention across a much wider range of economic and social policy than the WC. Nevertheless, the PWC remains fundamentally pro- market, supporting a poorly examined process of "globalization" which, however, should have a more human face because it would be supported by appropriate institutions and the gentle steer of the national state and the international financial institutions (IFIs).

The outcome of these shifts within the orthodoxy was the *augmentation* of the list of WC policy reforms by a long but imprecise list of "second generation" reforms, to create what many have termed as the post-Washington Consensus. Rodrik offers the comparison of WC and PWC policies or reforms by the help of (table 1).

Table 1 The Post-Washington Consensus

Washington Consensus	***Post-Washington Consensus (Original WC plus)***
Secure property rights	Anti-corruption
Deregulation	Corporate governance
Fiscal discipline	Independent central bank and IT
Tax reform	Financial codes and standards
Privatization	Flexible labour markets
Reorientation of public expenditures	WTO agreements
Financial liberalization	"Prudent" capital account opening
Trade liberalization	Non-intermediate exchange rate regimes
Openness to FDI	Social safety nets
Unified and competitive exchange rates	Targeted poverty reduction

Source: Rodrik (2006, p.978).

3. APPLICATION AND PERFORMANCE OF NEO-LİBERAL POLICY IN TURKEY

3.1. Before Neo-liberalizm

For most of its republican history, Turkey has adhered to a quasi-statist approach, with strict government controls over private sector participation, foreign trade, and foreign direct investment. As was the case in many developing economies in the world, the main economic development strategy of Turkey centered on import-substitution policies during the 1960s and 1970s. This period was characterized by huge public investment programs, which aimed at expanding the domestic production capacity in heavy manufacturing and capital goods. Foreign trade was under heavy protection via quantitative restrictions along with a fixed exchange rate regime that, on the average, was overvalued given purchasing power parity. The import-substitution strategy heavily relied on imported raw materials. Hence, Turkey's terms of trade have deteriorated following the first oil shock in the 1973-1974 period. This deterioration caused a huge burden on the balance of payments, while the additional burden was compensated by short-term borrowing. From 1977 onwards, since the required amount of imports could not be realized in due time, there appeared problems in the labor market, and important difficulties emerged on the supply side. Factories couldn't operate because of the scarcity of raw materials and couldn't hire workers for production purposes. Increasing unemployment rate effected social structure of the society negatively. On the demand side, expansionary fiscal policy was maintained. Imbalances in the aggregate supply and demand accelerated the already increasing inflation. Inadequate measures taken to overcome the crisis, as well as the negative effects of the second oil shock in 1979 deepened the crisis.

3.2. Application of Neo-liberal Policy in Turkey

The Initial phase of neoliberalism has started by the Decisions of the 24th January 1980 and after the 12 September 1980 coup the initial period of neoliberalism accompanies with "Özal legacy" since Turgut Özal's leadership had a decisive impact on the neoliberal transformation of the Turkish economy. The early 1980s constituted the heyday of the "Washington Consensus" (Öniş, 2004). As Boratav (2013) states in the initial period of neoliberalism (1980-1989) the labor costs were suppressed so that the exports were pumped and the capital movements was kept under control. The second phase of neoliberalism is also the period of coalitions (1990-2000). In this period the losses of the labor were partially compensated and the distribution conflict lead to fiscal imbalances and in contrary to these capital movements were liberalized. The third period of neoliberalism (after the 2001 crisis, 2002 -2014) has accompanied to Justice and Development Party (JDP) years, single party government. Within this period the fiscal imbalance was kept under control and the distribution relations were determined by the market forces. Below these periods will be examined respectively.

3.2.1. First period of neoliberalism in Turkey (integration of Turkish Economy to the world economy through WC)

The 24th January 1980 Decisions were announced in order to curb inflation, to fill in the foreign financing gap, and to attain a more outward oriented and market-based economic system. Within the framework of these decisions, export subsidies were granted and exchange rates were allowed to depreciate in real terms to make Turkish exports more competitive, which would lead to the promotion of export-led growth.

Turkey attempted to overcome weaknesses of import-substitution strategy by gearing towards a more outward oriented economic development strategy. Especially during the 1980s there was an accelerated reform and adjustment process in almost all sectors of the economic system. The reform process started with liberalization of the foreign trade regime and the financial sector and culminated in the liberalization of capital accounts during late 1989, the latter changed the whole pattern of policy making environment radically.

24 January 1980 Decisions included export subsidies; high devaluation; increases in public goods and services prices; increases in interest rates and implementation of heterodox

export incentive policies. By the help of these policies Turkey regained the confidence of international institutions. The IMF Stand-by and World Bank adjustment loans were rapidly arranged and disbursed in conjunction with additional debt relief operations. The trade reform process was facilitated by three characteristics of the policy environment (CBRT, 2002, p. 6):

- Firstly, net foreign lending allowed the resumption of intermediate goods imports and eased pressures on public finance. Because of the low rates of capacity utilization (at around 45-50 percent), industrial firms showed a strong export response to the rapidly altered incentive structure.
- Secondly, the exchange rate depreciation was high but sustainable.
- Thirdly, domestic absorption was significantly lowered in the first half of the 1980s to provide room for the initial push in export expansion. In this period, real wages and agricultural incomes were decreased substantially.

By the announcement of the decisions, economic integration to the world economy had started in Turkey step by step. The first step was the trade liberalization process. Financial liberalization followed trade liberalization and finally capital account liberalization fully completed when Decree No: 32 put into force in August 11, 1989. Turkish economy, became fully an open economy, to the shocks of the global economic system since then. Economic policies of Washington Consensus influenced all sectors of the Turkish economy. Turkey was among the reformist countries of 1980's which tried to operate free market economy. Strong adherence to neo-liberal policies of Washington consensus gained acceptance in all parts of the economy by the reforms realized after 1980.

3.2.2. Second period of neoliberalism in Turkey (results of WC)

The 1980s were characterized by the liberalization efforts of the governments on many fronts. The 1990s were lax post reform period in Turkish economy. First generation reforms were in place and the impact of these reforms was surfacing in 1990s. Economic fundamentals and the rules of the game were totally changed during those years. The 1990s were a decade of external and domestic shocks and crises for the Turkish economy.

The boom and bust cycles of the economy contributed to the political instability of the country in 1990s. Duration of the governments stay in office were 15 months on the average in those years. Turkey has been governed by coalitions of minority governments in that period. Coalition governments performed worse than majority governments in terms of budget discipline. Turkey experienced one of the deepest economic crisis of its history in 1994. There was a 60% nominal depreciation of the currency within four months and 6.1 % contraction of the GNP in the same year.

Foreign financing and integration with the international capital markets didn't raise the productive capacity of the economy, but helped the policy makers to postpone the necessary reforms. After crisis policy makers both in national and international quarters became aware of the importance of proper rules, institutions and governance in achieving stable growth. Second generation reforms and the issue of good governance were the main agenda items during the late 1990s. New reforms were unavoidable in the face of pressing problems into an uncertain future through a rising depth stock. November 2000 and February 2001 crises revealed the fact that the current situation would worsen without more reforms addressing the public sector and the banking sector. The new economic program of 2002-2004 put a high priority in reforming the banking sector.

3.2.3 Third period of neoliberalism in Turkey (PWC)

Both 1994 crisis and 2001 crisis have emerged as financial crisis within this model of capital accumulation in the neoliberal era that cause Turkish economy to be called transition from one crisis to another (Yentürk, 2005:3). On the other hand the related crisis has also lead the neoliberal transformation policies to be applied more effectively (Tahsin: 2013:3). It is possible to claim that the 2001 crisis had also a function of opening a new era in the application of neoliberal policies. First of all the political will require for the application of neoliberal agenda was reconstructed under new power relations. Transition to “strong economy” program implemented in 2001, after the crisis, under the leadership of Kemal Derviş, the newly appointed Minister of State responsible for the economy was a major step Turkey’s encounter with “regulatory neo-liberalism” in context of the emerging post-Washington consensus (Öniş, 2012). Good governance, institutional restructuring, efficient state against corruption, transparency are among the related titles targeted by transition to strong economy under Derviş administration. These titles are also closely linked with PWC agenda.

Based on this program the necessary regulations and laws for restructuring the state on the basis of neoliberal principles were taken with an increasing role and effectiveness of the independent regulatory agencies that also meant acceleration of the neoliberal transformation (Öniş and Şenses, 2007).

Turkey is a prime case study demonstrating how the effects of a precipitous economic collapse can be reversed (Hakura, 2013:2). As the liberalization of the 1980s went unsupported by sound macroeconomic policies and institutional reforms, the economy suffered repeated crises in the following decade: in 1991, 1994, 1998, 1999 and, worst of all, 2001. Lack of fiscal discipline and heavy reliance on monetary financing led to high inflation and real interest rates. An inadequate regulatory and supervisory framework for the banking system encouraged financial institutions to funnel short-term borrowing from depositors into loans of dubious quality and government securities. Inefficient state enterprises dominated several economic sectors. Policy durability was undermined by a succession of short lived coalition governments that implemented populist measures.

Then, under the aegis of Economy Minister Kemal Derviş, Turkey recovered swiftly from the 2001 collapse. He concluded a stand-by agreement with the International Monetary Fund (IMF), liquidated insolvent banks, privatized state-owned enterprises, liberalized the energy and telecommunication markets, introduced a free-floating Turkish lira (TL), created an autonomous central bank, and set up independent financial and market regulatory bodies. Turkey’s European Union accession process and policy continuity under the subsequent single party JDP government accelerated the recovery. Erdoğan’s leadership had brought more efficiency and predictability to economic policy-making since 2002. Turkey’s central bank had earned plaudits from financial markets for bringing inflation under control. Credibility became a corner stone of Turkish economic, fiscal and monetary policies, enabling the domestic business community and foreign investors to engage in long-term planning within a more stable political environment.

The sources of 'easy' economic growth from macroeconomic stability and fiscal discipline have been largely exhausted, however. Turkey's consumer-driven economic model cannot sustain consistently high growth rates and is being undermined by low investment and savings rates, limited export sophistication, pervasive gender inequality and inefficient use of its 'demographic dividend'.

Turkey's growth potential will be constrained unless it implements productivity enhancing reforms before the problems of an ageing population start to be noticeable around 2025. To avoid reform 'fatigue', it should focus on tackling the main bottlenecks to economic growth: the quality of human capital, and incomplete reform of governance and institutions.

4. CONCLUSION

By the announcement of the 24th January 1980 decisions, economic integration to the world economy had started in Turkey step by step. The first step was the trade liberalization process. Financial liberalization followed trade liberalization and finally capital account liberalization fully completed when Decree No: 32 put into force in 1989. Economic policies of Washington Consensus influenced all sectors of the Turkish economy. Turkey was among the reformist countries of 1980's which tried to operate free market economy.

The 1990s were a decade of external and domestic shocks and crises for the Turkish economy. Transition to "strong economy" program implemented in 2001, under the leadership of Kemal Derviş was a major step Turkey's encounter with "regulatory neo-liberalism" in context of the emerging post-Washington consensus. Policy continuity under the subsequent single party JDP government accelerated the recovery.

After the 2001 crisis, during the last decade it is clear that a fast growth rate period with an increase in GDP per capita has been realized in Turkey. On the basis of the economic growth ratios a "concrete" improvement has been achieved. The sources of 'easy' economic growth from macroeconomic stability and fiscal discipline have been largely exhausted, however. Past performance based on 'easy' growth released by lower inflation and fiscal discipline is no guarantee of future success. Turkey's growth strategy suffers from a serious flaw in its excessive reliance on domestic demand-led growth, putting at risk the sustainability of a fast-paced economy. Given current institutional and policy constraints, it might struggle to achieve even modest growth rates of 2-5 per cent and will be vulnerable to foreign investor sentiments unless it bases growth more on productivity gains. After about 2025, it is anticipated that Turkey's 'demographic window of opportunity' will start closing, population ageing will be in full swing and its middling prospects for prosperity may well become the norm.

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