

TURGUT ÖZAL AND HIS ECONOMIC LEGACY: TURKISH NEO-LIBERALISM IN CRITICAL PERSPECTIVE

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Turgut Özal was a critical figure in Turkey's transition to a neo-liberal development model in the 1980s. Arguably, he was also the most influential political leader in Turkey since the time of Kemal Atatürk. An adequate account of Özal's legacy, therefore, has to encompass a number of different dimensions of his influence not only on the economic realm but also the transformations that Turkey has gone through in the spheres of politics, culture and foreign policy initiatives in the post-1980 era.¹ The present study will focus explicitly on one particular dimension of his legacy, namely the impact that he had, both positive and negative, on the course of Turkey's neo-liberal economic transformation during in the 1980s and 1990s. In assessing his economic legacy, however, we shall also aim to tackle the thorny question of Özal's vision of democracy and democratic institutions particularly in the context of Turkey's ability to accomplish economic transformation in a neo-liberal direction within the framework of democratic institutions.

From a comparative perspective, certain parallels may be drawn between Özal and neo-populist political leaders such as the Argentine President Carlos Menem who have also played a key role in terms of implementing radical market-oriented economic reforms and justifying the implementation of such reforms to wide segments of the electorate. Yet, even judged by his Latin counterparts, Özal was

unique in the sense that within the course of a single decade he managed to combine two rather different attributes, namely the role of a technocrat in a largely authoritarian setting as well as the role of a reformist politician in a broadly democratic environment.

In retrospect, Özal's influence embodied a strong positive dimension. The continuity of leadership throughout the 1980s was instrumental in Turkey's swift recovery from the deep economic crisis that the country had found itself in during the late 1970s. It played an important role to enhance the credibility of the stabilization-cum-structural adjustment program supported by key international institutions such as the OECD, the IMF and the World Bank., both in domestic and international circles. His unusually diverse background in economic bureaucracy, private business and international organizations helped to inspire confidence and build a broad base of support for the program. His bold initiatives helped to accelerate the momentum of the liberalization process in the Turkish economy, notably in the realms of trade and capital account liberalization. Moreover, his bold leadership style injected a considerable degree of optimism concerning the future of the Turkish economy in the mid-1980s, a state of affairs which was largely absent in the subsequent phase of Turkish neo-liberalism during the 1990s.

A balanced interpretation, however, needs to highlight the negative aspects of Özal's economic legacy as well. In retrospect, the weakest link in Özal's economic thinking was the tendency to underestimate the importance of the rule of law and the need to develop a strong legal infrastructure for a well-functioning market economy. His preference was for ruling by decrees, hence bypassing normal parliamentary

procedures and constraints. His vision was rather typical of the kind of practice associated with the Latin American style presidential systems characterized by the absence of checks and balances providing enormous powers for the key individual in charge. Whilst, this style of decision-making was useful in terms of the ability to undertake decisions rapidly and overcome powerful interest group pressures, nevertheless, it tended to undermine the longer-term viability of the program. Indeed, the origins of the significant increase in corruption in the Turkish economy during the course of the 1990s might be considered as a direct legacy of the Özal era of the 1980s, notably the failure to penalize the misuse of export subsidies during the mid-1980s. The principle involving “economic punishments for economic crimes” nicely illustrates the rather relaxed attitude that Özal entertained with respect to the proper implementation of the rule law in the economic sphere with rather devastating consequences.

Özal also tended to neglect the need to develop a strong institutional infrastructure for the effective operation of a market-oriented economy. His approach involved a direct confrontation with the “classical bureaucracy”. He tried to implement the reform process in a concentrated and top-down fashion. His approach also involved the creation of totally new layers of bureaucracy (such as the Privatization Administration) which often resulted in serious intra-bureaucratic conflicts. These new institutions often lacked a proper bureaucratic tradition or culture. Hence, one could argue that the implementation of the reform process in Turkey was associated with a weakening of the bureaucratic or the state apparatus in Turkey, arguably with costly consequences. Yet, to be fair, one clearly needs to highlight the dilemma that a reformer such as Turgut Özal faced: namely, could radical reforms be implemented in

co-operation with existing layers of bureaucracy, given the etatist mindset prevailing in those key institutions.

Finally, the decision to open up the capital account fully in August 1989 was primarily Özal's own initiative. Most commentators would agree that this was a premature decision in the presence of pervasive macroeconomic instability and a severely under-regulated financial system. What is striking for our purposes that the successive crises that Turkey experienced over a short interval in 1994, 2000 and 2001 had their origins in key decisions implemented during the Özal era. In that sense, one can argue that there is an essential line of continuity between the apparently more successful 1980s and the less successful and unstable era of the 1990s and beyond.

Turgut Özal as a Neo-Populist Reformer: Historical Background and a Comparative Perspective

Turgut Özal's unusually diverse background equipped him with a unique set of advantages to play an effective leadership role during the course of Turkey's neo-liberal transition. Özal was born in Malatya, a town in the eastern part of Anatolia in 1927.² He came from a conservative and religious family of humble means. He rose from the periphery of the Turkish society to key echelons of public and private power

during the course of the 1960s and the 1970s. As a graduate in electrical engineering from the prestigious Istanbul Technical University (ITÜ), he became a public sector employee at the Agency for the Study of Electrical Energy.³ His renewed association with Süleyman Demirel, who was a few years his senior at ITÜ has played a decisive role in Özal's subsequent career. During the early 1960s, Özal was among a group of conservative politicians and bureaucrats who joined the Justice Party (Adalet Partisi-AP) . During this period, Özal acted as a technical advisor to Demirel, who subsequently became the Prime Minister following the electoral victory of the AP in 1965. The special relationship between Demirel and Özal was instrumental in the appointment of Özal as the Under-Secretary of the State Planning Organization (the SPO), the most prestigious institution in economic bureaucracy during the import-substitution era, in 1967 and he remained in that position until 1971.

Having been exposed to the high echelons of economic bureaucracy, the next stage in Özal's rise to the top was the two-year period that he spent at the World Bank during the early part of the 1970s. Following his return from Washington, Özal returned to Istanbul to work for the private sector. During the period from 1973 to 1979 Özal held a number of top-level managerial positions in the private sector. Particularly important in this context was the key position that he occupied at the Sabancı Corporation, one of the leading conglomerates in Turkey. This unique background involving exposure to public, private and transnational organizations, at successive phases of his career, clearly proved to be a major asset for Özal during his subsequent rise to political power. The fact that he worked for the World Bank during the early 1970s was useful in generating confidence on the part of the key external actors as well as the international financial community at large. Yet, given his strong roots in

Turkey's key state institutions and major private sector conglomerates, he was much more than mere than a representative of transnational capital. His strong domestic roots provided him with a strong base within the elite structures of the Turkish society.

Yet, Özal was much more than a technocrat who could only appeal to narrowly-based elite structures within the state establishment as well as the dominant centers of national and transnational capital. His unusual background, once again, provided him with a decisive edge in this respect. Özal's Islamist roots which were evident during his tenure as the Under-Secretary at the SPO, came increasingly into the surface in the late 1970s, when he tried to enter national politics as a candidate of the National Salvation Party (the MSP) led by Necmettin Erbakan. Although Özal failed to win a seat in Parliament at the time, Özal's Islamist leanings have subsequently proved to be a major source of advantage in his quest to generate broad-based public support. Through his unique background, Özal was able to override the traditional secular-Islamist or the center-periphery divide in Turkish society. His moderate Islamist leanings enabled him to appeal to the conservative masses on the periphery of the Turkish society, whilst he could also appeal to the secular elites through his attractive projects aimed at modernization and economic reform through closer integration with the Western world.⁴

Considering Özal's extra-ordinary attributes as a technocrat respected both in national and transnational circles, it was perhaps not surprising when he was appointed by Demirel as the key figure to implement the reform program instigated on January 24, 1980 in his capacity as the Acting Head of the SPO and the Deputy Under-Secretary

of the Prime Minister. What is fascinating was the continuity in Özal's role as the key technocrat responsible for the stabilization and reform program following the collapse of the civilian government in September 1980. Özal's strengths in economic matters as well as his skill in negotiation with international organizations rendered him an attractive choice for the military elites, in spite of the fact that they were not receptive to his Islamist leanings. During the interim government that followed the military intervention, Özal occupied the post of the Deputy Prime Minister in charge of Economic Affairs. Özal stayed in this position for almost two years until the time of the "bankers' crisis" in summer of 1982. The fact that his Finance Minister, Kaya Erdem, was implicated during the crisis put pressure on him to resign.⁵

From this point onwards, Özal found himself in a new phase of his political career. During the 1982-1983 period, Özal was actively involved in the formation of a new political party, namely the Motherland Party (the ANAP). The ANAP gained a major victory in the elections of November 1983 that marked Turkey's return to parliamentary democracy, contrary to the wishes of the military elite.⁶ Özal, as the leader of ANAP, became the Prime Minister and reached the peak of his influence in that position for the next six years, with the ANAP repeating its electoral success during the elections of November 1987. Özal became the president of the Republic in November 1989, a position that he occupied until his unexpected death in April 1993. Thus, for a period of a decade, from January 1980 to November 1989, albeit with an interruption of a brief period, Turkey experienced extra-ordinary continuity in economic leadership. This made a sharp contrast with the highly fragmented political order and lack of effective leadership throughout the next phase of economic reforms during the 1990s.

Özal had the rare ability to make an effective transition as a leading technocrat in an authoritarian interim regime to a civilian politician with a mass political appeal over a short space of time. The political party that he helped to create was based on a hybrid ideology combining elements of liberalism, conservatism with strong Islamist connotations, nationalism and welfarism. By effectively exploiting this hybrid ideology, ANAP under Özal's leadership could appeal to both the center and the periphery, transcending the elite versus non-elite divide in Turkish society.⁷

In retrospect, Özal's unusual credentials become even more apparent when they are placed in comparative perspective. A useful comparison in this context would be with Kemal Derviş. Derviş was appointed as the key technocrat in charge of the economic reform program by the Prime Minister Bülent Ecevit, following the major economic crisis that Turkey experienced in February 2001. Derviş had an impressive career at the World Bank reaching top positions in that institution. Hence, he clearly possessed the credentials that would generate the trust of the transnational financial community as well as key elements of the pro-reform coalition at home. Derviş has undoubtedly played an important role in instigating Turkey's recovery process in the aftermath of the 2001 crisis. Yet, contrary to Özal, Derviş was unable to transform his strong technocratic credentials to political success.⁸ Derviş clearly lacked the kind of domestic political base or the kind of political background that Özal possessed that would appeal to broad sections of the electorate. What is interesting, from a comparative perspective, is that support from the transnational financial community *per se* is not sufficient for domestic political success. Indeed, close affinity with transnational capital and its key institutions might have worked against Derviş, in the

sense that key segments of the electorate have identified him as an agent of the IMF, transplanted to Turkish politics by external forces. Derviş, as a representative of the transnational capital and narrowly-based Istanbul elites, lacked the necessary political infrastructure necessary that would enable him to appeal successfully to wider segments of the Turkish society. What the Özal experience highlights in contrast is that strong, organic links with transnational financial networks may constitute an important source of political advantage in the era of neo-liberal globalization provided that a strong base of domestic political support exists at the same time.

Leadership Matters: the Positive Aspects of Özal's Influence

Successful transition to a neo-liberal model of development requires strong and effective leadership for a number of different reasons. First, countries like Turkey shift to a neo-liberal model not through voluntary choice but as an inevitable and forced outcome of a major balance of payments crisis associated with the exhaustion of the import-substitution model of industrialization. In this context, the support of the transnational community is crucial for accomplishing a smooth process of recovery and a basis for sustained economic growth. Clearly, support will not be forthcoming from the international financial community, at least not an adequate scale, if key institutions of the international financial order lack trust in the leadership and its commitment to the reform process. Second, leadership is important in terms of generating trust on the part of both domestic and external capital. This is also a crucial element in the sense that long-term success of a reform program depends crucially on the investment performance of domestic and external capital. Third, the ability to

sustain the reform process, in a predominantly democratic environment, depends on its acceptability to broad segments of the public. Hence, leadership becomes critical in terms of incorporating broad strata of the population as stake-holders to the reform program. In all these three respects, Turgut Özal's was crucial in the context of the 1980s.

The 1980 program which was one of the earliest of its kind involved close co-operation between the IMF and the World Bank as the providers of massive financial support for Turkey.⁹ The scale of the financial support was, in part, due to Turkey's geo-strategic importance. Yet, Özal's leadership, with his unique background and credentials as well his negotiating skills was also important in securing a fine deal with the international financial community from a Turkish point of view. Özal's leadership also injected a considerable sense of optimism to the domestic business community which had been accustomed to operate within closed walls and high protective barriers. Clearly, the changing nature of incentives made the environment much more attractive in the early 1980s. Nevertheless, Özal's influence was important in creating a mood of optimism whereby Turkish businessmen felt confident in their ability to penetrate into distant markets.

What is important is that this element of optimism was not only injected to the business community but to the Turkish public at large. Özal's project of popular capitalism through such measures as mass housing projects, sale of revenue sharing certificates and high interests for the savings of small investors managed to incorporate with considerable success middle strata of the Turkish public as key stake-holders in a Thatcher-style project of popular capitalism. Clearly, his aim here

was much more than simply generating a broad-based political coalition to secure ANAP's electoral success. It was part of a broader project implemented with missionary zeal to transform the Turkish economy and the Turkish society at large in the mould of what he believed to be a genuinely capitalistic economy and society, overcoming its strong etatist reflexes in the process. At a broader level, Özal's vision and influence was important in helping to transform a self-enclosed society, with a mediocre image of itself, to an outward and forward-looking society that aimed to participate and play an active role in the key regions surrounding Turkey. The optimism that Özal inspired concerning the future of the Turkish economy also helped to reverse the brain drain. Özal actively encouraged this process through the appointment of highly-educated figures that had been trained in the United States to top positions in the bureaucracy. But, clearly, the process was not confined to bureaucracy. It also constituted a more general phenomenon with a number of highly educated who would normally have preferred to stay abroad, returning home and taking up key positions in the private sector.

In spite of his moderate Islamist leanings, Özal placed major emphasis on developing close relations with the European Community. Right from the beginning, he believed in the importance of a strong external anchor, such as membership of the EC, for the consolidation of the reform process in Turkey.¹⁰ Indeed, his thinking in this respect may be traced back to the period at the SPO during the late 1960s. Even at the heyday of import-substitution and heavy protectionism he believed in the importance of trade liberalization as a means of disciplining domestic industry through exposure to external competition. Hence, step by step integration to the EC constituted a crucial step in creating a genuinely competitive industry at the domestic front.¹¹ Özal played

an active part in pushing for Turkey's application for EC membership in 1987. The move was, in part, tactical in the sense that the primary aim was to accelerate the process of trade liberalization given that there was no likelihood at that point that Turkey's membership application would receive a favorable response from the Community. Indeed, Turkey's application was rejected, but Özal's initiatives paved the way for the Customs Union that became a crucial element in the full-scale liberalization of the Turkish economy in the context of the 1990s. In retrospect, the trade liberalization process in Turkey could have been a much more gradual process in Özal's absence. Important segments of the Turkish business community, notably those that were primarily oriented towards the lucrative internal market, resisted trade liberalization. Were it not for Özal's bold initiatives in this respect, which he often tied with the goal of EC membership, the exposure of domestic industry to genuine external competition would have been a far more protracted process.

Weak Commitment to Democracy, Institutions and the Rule of Law: the Negative Aspects of Özal's Legacy

Özal was undoubtedly a staunch believer and supporter of economic liberalism. Yet, his brand of liberalism contained a number of unorthodox elements judged by the standards of liberalism that dominate economic and political discourse in advanced democracies. In contrast, he displayed apparent similarity with his neo-populist counterparts in Latin America, such as Carlos Menem. His style of governance was characterized by weak commitment to democracy, institutions and the rule of law.¹² There is no doubt that Özal displayed a certain vague commitment to representative

democracy as a natural counterpart of a market-oriented economy. Yet, he failed to display a kind of deep commitment and respects for the institutions and norms of a democratic polity. In retrospect, his vision of democracy was quite representative of the kind of constitutional economics associated with the writings of Buchanan and Hayek, the kind of neo-conservative, new right thinking that exercised a key influence over the mind-sets of such conservative leaders as Ronald Reagan in the US and Margaret Thatcher in Britain. A central idea in this respect was to limit the powers of representative institutions such that the natural workings of the free market could be protected and insulated from the detrimental effects of powerful interest group pressures that can be exercised through representative institutions. Hence, the notion of limiting the domain of representative democracy for the benefit of the market was an idea that Özal clearly favored.¹³

Ultimately, what Özal desired foremost was the speedy implementation of market-oriented reforms. It was important in this respect that decisions be taken quickly and not be obstructed by key interest groups that had a stake in opposing reform. Hence, for the sake of the economic process, it was imperative to by-pass democratic processes such as the constraints imposed by bureaucratic and parliamentary norms. Not surprisingly, Özal preferred a decision-making style based on Cabinet Decrees as opposed to Acts of Parliament. For example, key decisions on privatization of state economic enterprises from 1986 onwards were achieved by government decrees. The absence of an explicit Privatization Law, however, has been amply exploited by the opponents of the privatization program who managed to block key privatization deals via recourse to the Constitutional Court. Hence, the absence of a strong legal infrastructure has clearly jeopardized the success of the privatization program.¹⁴

Similarly, Özal preferred flexibility in government spending decisions. Indeed, one of the striking landmarks of the 1980s involved the proliferation of extra-budgetary funds (EBFs) which became an important medium of government spending. In retrospect, however, the proliferation of the EBFs during the Özal era helped to introduce a number of important distortions in the system resulting in arbitrary spending decisions based on political patronage. Furthermore, the widespread use of EBFs progressively undermined financial discipline which constituted one of the central pillars on which the success of the neo-liberal program depended.¹⁵

Thus, Özal's understanding of democracy appeared to pay scant respect for the principles of transparency and accountability, with the parliament as the key institution at the center of the system. A similar distrust of bureaucratic institutions was also evident in Özal's approach to the reform process.¹⁶ Although Özal himself was a product of the classical bureaucracy, having occupied top positions in the SPO, he was also heavily critical of the etatist mindset and the excessive powers enjoyed by the bureaucratic elites. An interesting dichotomy could be identified in his thinking process in this respect. At one level, he was critical of representative institutions such as the parliament and wished to by-pass such institutions for the sake of speedy implementation of the reform process. Yet, at same time, he was critical of classical bureaucracy and what he wanted to accomplish was to reduce the excessive autonomy enjoyed by the predominantly etatist bureaucratic elites and render them truly accountable to elected politicians, as the true representative of the public.¹⁷ Clearly, these contradictory positions make it rather difficult to assess Özal's true democratic credentials. The common denominator, in this respect, however, is a focus on the

primacy of economic reforms and by-passing key institutions and norms, if such institutions and norms appeared to block the path of reforms in the short-run.

Given his natural confrontation with the etatist mind-set of classical bureaucracy, Özal tried to implement the reform process in a top-down fashion. His approach also involved creating totally new layers of bureaucracy such as the Privatization administration, the Under-secretariat of Treasury and Foreign Trade and so on rather than trying to implement such key elements of reform such as privatization and trade liberalization through the existing set of bureaucratic organizations such as the SPO or the Ministry of Finance. One major benefit associated with Özal's bureaucratic restructuring involved the inflow of a select group of young, highly trained and internationally oriented bureaucrats to the high echelons of economic bureaucracy. Often referred as "Özal's princes" in popular discourse, this new elite possessed the kind of expertise needed in the age of financial globalization and injected a considerable degree of dynamism into the bureaucratic decision-making process.¹⁸

The drawback of these new bureaucratic institutions, however, was that they lacked a proper bureaucratic tradition and culture. Hence, one could argue that the implementation of the reform process in Turkey was associated with a weakening of the bureaucratic apparatus with costly consequences that became evident with recurring episodes of corruption, notably in the ensuing decade of the 1990s. To be fair to Özal, however, we need to reemphasize the fact that he was faced with a serious dilemma. Considering that his prime motive was the rapid and uninterrupted implementation of reforms, to what extent would he be able to achieve this within the

parameters of the existing bureaucratic institutions, given the dominance of the etatist mind-set in such institutions?

Finally, Özal's weak commitment to legal norms was amply highlighted by his frequently cited statement that envisaged "economic punishment for economic crimes".¹⁹ Perhaps, the most serious manifestation of this notorious principle in practice occurred in the context of the "fictitious exports" episode during the mid-1980s. In the early 1980s, a major instrument utilized by the government to promote exports was export subsidies in the form of export tax rebates. Yet, in the presence of weak government discipline, rent-seeking enterprises tried to take advantage of these subsidies through a variety of mechanisms, notably over-invoicing. In short, a large numbers of firms violated the law and claimed large amounts of export subsidies without actually undertaking the required level of exports. Yet, the administration was quite lenient on these activities and no serious attempt was made to punish the crimes involved. Indeed, the kind of thinking embodied in Özal's notion of "economic punishment for economic crimes" represented a rather light-hearted treatment of the kinds of crimes involved.²⁰ Perhaps, what Özal had in mind, was to avoid repression of entrepreneurial activities through excessive penalties. Yet, most commentators would concede that this proved to be a major mistake. In retrospect, the fictitious exports episode and the lenient response by the state marked the beginning of serious corruption in Turkey, hence representing a necessary line of continuity between the Özal era and the subsequent phase of neo-liberalism during the 1990s.

Rethinking Özal's Legacy in the Context of the Second Phase of Turkish Neo-liberalism: The 1990s and Beyond

The year 1989 is typically considered to be a natural turning point or dividing line in the Turkey's encounter with neo-liberalism in the post-1980 era. 1989 is considered to be important for a number of important reasons. First of all, it effectively marked the end of the Özal era. ANAP, under Özal's leadership experienced a major setback in the municipal elections of March 1989 which effectively marked the beginnings of the acute political fragmentation that was to characterize the Turkish party system throughout the 1990s. Furthermore, Özal's resignation as a Prime Minister for a new political role as the President in November 1989 also constituted a critical turning point. Özal clearly favored a Latin American style presidential system that would allow disproportionate executive powers to the president himself in an environment of weak checks and balances.²¹ Yet, in spite of the strengthening of power of the Presidency by the Constitution of 1982, Turkey's strong parliamentary traditions constrained Özal in his quest to play a strong presidential role.²² Furthermore, during the period of his presidency, with the Gulf War and its aftermath, Özal's attention increasingly shifted from economic to key political and foreign policy issues such as the Kurdish question and Turkey's role as an active regional power.²³ Finally, 1989 was the year when the critical decision was taken involving the full-scale opening up of the capital account, a decision that created a radically different economic environment in the context of the 1990s.

1989 is also used as a typical reference point in comparing economic performance during different phases of neo-liberalism in Turkey. Indeed, a superficial comparison reveals that "the Özal decade" has been much more successful judged on the basis of a number of key macroeconomic indicators. Average growth has been higher and

average inflation has been lower in the context of the 1980s. Furthermore, Turkey has been exposed to successive economic crises in the second phase, in 1994, 2000 and 2001 respectively, in sharp contrast to the crisis-free environment of the 1980s.²⁴ There is no doubt that political instability and full exposure to the forces of financial globalization constitute two elements that render the 1990s radically different from the earlier decade. Similarly, Turkey has been exposed to serious external or exogenous shocks in the 1990s that again renders the decade radically different from the earlier era.²⁵ Added to this, one should also take into account that Turkey did not face a fully competitive political environment well until late 1987, in spite of the fact that a transition to parliamentary democracy was achieved in November 1983. In spite of these obvious differences, however, it is our contention that significant continuities may be identified with respect to these two decades and these continuities, in turn, are a product of Özal's legacy. The argument may be substantiated as follows.

Özal himself played an instrumental role in the radical decision to liberalize the capital account fully in August 1989. Indeed, this proved to be one of his final acts as the Prime Minister. There is evidence that the decision was pushed through contrary to the advice of the Central Bank.²⁶ The decision was motivated by a mixture of economic and political considerations. Özal hoped that an open capital account regime would help to attract large amounts of external capital. This, in turn, would be instrumental in accelerating the pace of economic growth. He also hoped that this would provide an appropriate context for accelerating the momentum of trade liberalization, which would help to lower inflation through the pressure of low cost

consumer goods imports. These forces combined would also help ANAP to recover its political support in subsequent general elections.

Yet, this proved to be a serious miscalculation. The decision to liberalize the capital account in an environment of high degree of macroeconomic instability and the absence of an adequate institutional framework to regulate the financial sector rendered the Turkish economy highly dependent on short-term and highly speculative capital flows. Short-term capital inflows magnified the degree of instability in the Turkish economy as political actors used these funds to finance rising budget deficits thereby postponing costly adjustment decisions to the future. It was not surprising in this context that Turkish economy experienced successive financial crises with serious real economy consequences.²⁷

It is also well worth emphasizing that economic instability in Turkey had already started to build up in the Turkish economy from the late 1980s onwards. Clearly, it was difficult to contain severe distributional pressures in a newly opened political environment as the initial losers of the liberalization process, notably wage earners and agricultural producers, used their newly acquired political power to offset the economic losses that they had encountered during the early part of the decade.

In part, Özal as the key economic figure of the period should also share part of the blame for the steady loss of fiscal discipline that progressively undermined the very foundations on which the neo-liberal reform program rested. His background as an engineer and planner resulted in a certain tendency to underestimate the costs of financial imbalances and inflation from the perspective of sustained economic growth.

The strong emphasis that he tended to place on the real economy was coupled with a tendency to underestimate, if not to ignore, the negative consequences of inflation on the quantity and quality of investment and, hence, on the longer-term economic potential of the economy. Somehow, he tended to believe that rapid growth in the real economy would help to relieve inflationary pressures over time, neglecting the arrow that ran from high and variable inflation to low growth in the process.²⁸ The proliferation of the EBFs during his period of office facilitated a certain degree of flexibility in spending decisions. Yet, on the whole, they have proved to be rather costly in terms of fiscal indiscipline, not only in the 1980s but for most of the 1990s. Perhaps, the problem was of a more general and deeper nature than simply the absence of financial discipline in the public sector. The whole atmosphere of the Özal era with its emphasis on consumerism and a parallel lack of emphasis on the virtues of thrift in the society as a whole and not simply in the public sector have carried over into the subsequent decade and were clearly in evidence in the highly fragile, debt-led growth that Turkey experienced during the second phase of its neo-liberal experiment.

Yet another striking element of the 1990s involved pervasive corruption in the Turkish economy. Arguably, the political instability associated with short-lived coalition governments and the resultant myopic bias on the part of the key political actors made the economy rather vulnerable to widespread corruption.²⁹ Yet, the seeds of this process were already evident in the previous area of the 1980s. Arguably, the negative consequences of Özal's influence, namely the failure to pay adequate attention to the problem of accountability and the rule of law, exercised a far deeper negative impact in the context of the post-1989 era, reaching a climax in the context of the February crisis of 2001.³⁰

On a more positive note, important steps have been taken in the context of the 1990s designed to build the kind of strong regulatory institutions needed for the effective implementation of key aspects of the neo-liberal program in such areas as privatization and banking sector reform. Yet, these transformations have occurred in a rather protracted manner with the main initiative coming from external as opposed to domestic actors. For example, the Customs Union agreement which became effective by the beginning of 1996 was instrumental in creating a wave of important regulatory reforms in the Turkish economy in the mid-1990s resulting in the establishment of key regulatory institutions such as the Competition Board for the first time in the history of the Turkish economy. Similarly, the IMF which once again became heavily involved in the Turkish economy from the late 1990s onwards was the principal actor responsible for the introduction of a key regulatory institution in the banking sector, namely the Banking Regulatory and Supervisory Authority (the BRSA). The Turkish economy in the post-1999 era has, in fact, been confronted with a double external anchor, namely simultaneous IMF and EU discipline, which has clearly been pushing Turkey rapidly in the direction of institutionalizing reforms and greater fiscal discipline.³¹ The crisis of 2001, the deepest crisis that Turkey has experienced in its post-War history, has clearly been instrumental in accelerating this process of regulatory reform, although the process, as yet, is far from being completed. Looking back, the outcome would have been far more favorable for Turkey if such reforms had been instigated at an earlier phase.

Finally, the Customs Union agreement was clearly in line with Özal's thinking, although arguably the terms of the agreement could be better negotiated.³² In

retrospect, in spite of its shortcomings, the Customs Union represented the positive side of the 1990s. By accelerating the process of trade liberalization, a process that had already gathered momentum during the Özal era, it marked an important step forward in terms of rendering the Turkish industry more competitive in international markets. Not only for Özal but also for other Turkish political leaders, the Customs Union was not an end in itself but an intermediate step on the path to EU membership. In this respect, the Helsinki Decision of 1999 proved to be a crucial turning point for Turkey's fortunes. The clear improvement of the mix of conditions and incentives facing Turkey following its announcement as a candidate country has undoubtedly been instrumental in accelerating the process of economic and political reforms in Turkey during the recent era.³³

Özal and Menem as Neo-Populist Reformers: A Stylized Comparison

A proper understanding of Özal and his economic legacy requires a comparative perspective. A number of scholars of political economy have drawn attention to the emergence of a new phenomenon in the developing world described as “neo-liberal populism”.³⁴ Neo-liberal populism differs from traditional populism in the sense that it co-exists with neo-liberal policies aimed at improving economic efficiency and eliminating rent-seeking behavior associated with heavy protectionism and excessive state intervention of the import-substitution period.³⁵ Hence, rather paradoxically neo-liberalism which is supposed to be the anti-thesis of populism, replaced the populist political culture with a new kind of populism. Some of the most striking examples of this new breed of neo-liberal populism can be found in Latin America. The best-known examples of neo-populist reformers include Carlos Menem in Argentina

(1989-1999), Carlos Salinas in Mexico (1988-1994) and Fernando Collor in Brazil (1990-1992). Alberto Fujimoro of Peru (1990-2001) is also often included in this group.

The common denominator of neo-liberal populism is that reforms tend to be initiated in a top-down fashion, often launched by surprise and without the participation of organized political forces. Perhaps this is not surprising given that reforms involve significant social costs and a disproportionate number of losers are associated with this process. The style of policy implementation tends to be autocratic and this autocratic style of policy implementation tends to undermine representative institutions and to personalize politics. Active dialogue and consultation with the key interest groups is by definition excluded from this process. An all-powerful and charismatic leader plays a crucial role in this scenario in terms of implementing the reform package and legitimizing it in the eyes of the broad segments of the electorate. Hence, neo-liberal populism entails the co-existence of liberal economics with illiberal politics or a kind of shallow democracy.³⁶

The main features of Turgut Özal's style of economic governance clearly fits into the broad framework identified above. Without attempting a full-blown comparative analysis, a number of interesting parallels may be identified between Özal and Menem with respect to the implementation of neo-liberal reforms in their respective countries that clearly highlight the general nature of this phenomenon classified as neo-liberal populism".

Similarities between the two leaders begin with their respective backgrounds. Both were charismatic leaders with a traditional background who were on the periphery of their respective societies. Menem rose to national prominence from a rural province, basing his successful campaign on folkloric symbols, social justice themes and promises to revitalize the economy.³⁷ Like Özal, he managed to transcend the traditional and the modern and by recourse to “wealth” and “anti-elitist” themes, at the same time, could manage to appeal to strikingly different segments of the Argentine society. The unusual backgrounds of both leaders coupled with their flamboyant life styles allowed them to be project an image of being reformist, modern and progressive as well as being loyal to tradition and cultural roots of their respective societies. Both enjoyed strong links to the economic and state elites in their countries whilst at the same managing to convey a strongly anti-elitist discourse that clearly appealed to the middle and lower strata of their societies. Özal depended on his conservative, Islamist roots, and Menem effectively exploited his Peronist roots in order to capitalize on anti-elitist sentiments and to appeal to wide segments of their respective societies.³⁸

As neo-populist leaders, both were in office for roughly a decade. During this period they had considerable success in transforming their societies by implementing economic policies representing a move from protectionism and etatism to an open and outward-oriented culture. Argentina, under Menem’s Presidency, enjoyed its most successful phase of economic growth during the early and the mid-1990s.³⁹ Similarly, Turkey, under Özal’s Premiership, enjoyed the best phase of its neo-liberal restructuring. Indeed, both countries were portrayed by key international

organizations as model cases for the rest of the developing world during the periods in question.

Admittedly, the strong presidential powers that Menem enjoyed as well as the depth of the crisis and hyperinflation that Argentina had experienced in the previous era allowed Menem to implement neo-liberal restructuring in a far more radical and drastic fashion. A massive privatization program and the ability to bring inflation to single digit levels through rigid adherence to the convertibility plan based on a rigid relationship between Argentine peso and the dollar constituted the landmarks of the Argentine neo-liberalism under Menem. Özal's neo-liberalism in contrast, was less radical and more of a gradualist program. Significant steps were taken in the direction of liberalizing the trade and capital account regime and transforming the Turkish economy from an inward-oriented to an export-oriented direction. Yet, privatization remained limited and chronic inflation continued to be a serious source of disequilibrium, though never reaching the kind of hyperinflationary proportions experienced in the 1980s. Arguably, unlike Menem, Özal did not pay sufficient attention to the problem of inflation *per se*. His engineering mind-set led him to conceive of inflation "as a cost of economic growth"- an approach that fails to see price stability as a necessary condition for achieving sustained economic growth.

Both Özal and Menem saw laws and bureaucracy as impediments to swift decision-making. Indeed, Özal very much wanted the kind of presidential regime that Menem enjoyed which was characterized by the pervasive absence of institutional checks and balances. Although Özal could not achieve this due to the strong parliamentary traditions embedded in the Turkish political system. Indeed, the circumvention of

legal rules helped to undermine his reputation just as it did for Menem.⁴⁰ Both leaders were heavily criticized for the increase in corruption during the periods that they occupied office. Menem found himself in house arrest for six months on charges of organizing illegal sales of arms to Ecuador and Croatia. Özal did not face a similar fate during his periods of office. Nevertheless, the second half of the 1980s in Turkey has been characterized by widespread allegations of corruptions which also included members of Özal's own family.⁴¹ Given the weak commitment to the rule of law evident in the case of both leaders, it was perhaps not surprising that both Argentina and Turkey experienced a substantial increase in corruption during the neo-liberal era.⁴²

Finally, both leaders experienced a dramatic fall in their electoral fortunes. This was perhaps not surprising in the sense that sustained improvement in economic performance could not be achieved in neither of the two cases. In spite of the early success of the neo-liberal experiment, Argentina found itself once again in the midst of a deep economic crisis in 2001. In the Turkish case, crises were temporarily postponed to the 1990s and Turkey found itself confronted with successive and increasingly more costly financial crises during the later phase of its neo-liberal experiment. ANAP, as indicated earlier, started to lose its early popularity from the municipal elections of March 1989 onwards. Inability to contain inflation, with its costly consequences for low and middle income groups in society, as well as growing allegations of corruption had a deep negative impact on ANAP's electoral fortunes by the of the 1980s. During the course of the 1990s, the party was increasingly marginalized losing the kind of broad-based appeal that it had enjoyed during the peak of its popularity in the mid-1980s. Under the leadership of Mesut Yılmaz,

ANAP was a pale shadow of its image in the 1980s. Following the departure of Özal the party increasingly lost its broad political support and could only appeal to a narrow group of urban bourgeoisie which was hardly sufficient for electoral success. The ANAP's decline reached a dip in the elections of November 2002. The party failed to pass the national electoral threshold of ten percent and, for the first time since 1983, failed to send any representatives to the Parliament. Similarly, Carlos Menem tried to make a comeback during the recent presidential elections of Argentina in 2003. Yet, he decided to withdraw from the presidential race realizing that he had lost his previous popularity among the Argentine public by a drastic margin.

These comparative observations suggest that “neo-liberal populism” inspired by charismatic leaders constitutes an asset in the process of implementing difficult and divisive reforms in its early stages. There is no doubt that both Argentina and Turkey have made significant strides in transforming their economies, having experienced deep crises in their import-substitution phase of development. Nevertheless, our brief comparison also highlights that the kind of neo-liberal reform experiment that essentially by-passes and undermines democratic institutions and norms can generate devastatingly unfavorable consequences from a longer-term perspective. The experiences of both Argentina and Turkey illustrate in a rather dramatic fashion the negative repercussions of trying to engineer reforms in a top-down fashion, circumventing democratic norms and the rule of law in the process.

Turkey and Argentina are societies characterized by a high degree of income inequality. Both Özal and Menem hoped to deal with the problem of pervasive

inequality through sustained economic growth. They tended to reject the notion of extensive direct re-distribution as being inherently inconsistent with the neo-liberal logic.⁴³ Yet, the kind of growth path that they helped to instigate was a highly fragile pattern of debt-led growth which was highly vulnerable to speculative attacks and financial crises.

Concluding Observations

Turgut Özal's leadership had a decisive impact on the neo-liberal transformation of the Turkish economy. The early 1980s constituted the heyday of the "Washington Consensus". Turkey, having lived through a major crisis in the late 1970s, was one of the first countries to encounter the new liberalization message from Washington. Özal's unique qualities as an engineer and economic technocrat and his unique background that helped him to by-pass boundaries involving traditional and modern, elites and non-elites as well as national and transnational destined him to play a key leadership role first as a technocrat and then as a key political figure in the implementation of the reform process. Leadership *per se* cannot explain economic success. Nevertheless, there is no doubt that Özal's leadership helped ensuring considerable continuity in the reform process. His vision and bold initiatives generated considerable optimism concerning the future direction of the Turkish economy. Indeed, by the mid-1980s, Turkey was frequently singled out as a case of successful adjustment by the IMF and the World Bank that others in line ought to emulate, although danger signs clearly existed notably on the fiscal front. The optimism that characterized the early Özal era has to a large extent been reversed in the subsequent decade and only very recently, with a substantial time-lag, following

the electoral victory of “the Justice and Development Party” (the AKP) can we see the beginnings of a new era of confidence in the future of the Turkish economy.

A balanced consideration of Özal’s legacy, however, reveals a number of fundamental deficiencies that clearly left their mark on the subsequent underperformance of the Turkish economy. To a certain extent, the negative aspects of Özal’s legacy were synonymous with the weak spots in the Washington Consensus. For example, Turkey was not alone in being exposed to the vagaries of financial globalization through premature capital account liberalization. Yet, clearly the process could have been delayed in the Turkish case if Özal had not pushed so decisively for the move to full convertibility in August 1989. It is also fair to say that the significance of institutions had been underestimated in the early days of the Washington Consensus. The prevailing intellectual mood in the dominant academic and financial circles that Özal was confronted with in the early 1980s projected a rather optimistic image concerning the ability to create “free markets”, simply by reducing the weight of the state in the economy and releasing entrepreneurial energy in line with correct incentives. The importance of institutions and the rule of law as the necessary ingredients of an effectively functioning market economy were somehow underplayed or pushed aside in this context. Ultimately, the failure to pay sufficient attention to democracy, institutions and the rule of law, in spite of the advantages that it offered in the early stages, has been costly for the Turkish economy in the course of the subsequent decades of Turkish neo-liberalism. In this respect, one can diagnose an essential line of continuity between what appear to be quite separate phases of the Turkish neo-liberal experiment.

Finally, a comparative approach is useful in contextualizing Özal's economic legacy. Özal enjoyed certain unique attributes derived from the specific, contextual features of the Turkish experience. Yet, at the same time, his style of charismatic leadership was rather typical of the new wave of neo-liberal populism that was also evident in other parts of the developing world and notably in Latin America. A cursory comparison with the Argentine President Menem revealed a number of striking commonalities with the Özal case, clearly pointing towards the presence of certain general tendencies in the implementation of market-oriented reform with far-reaching social consequences in the tough political environments of emerging democracies. Neo-populist reformers like Özal and Menem placed their priority on rapid implementation of reforms, leaving the issue of democratic deepening into the distant future. What was ironic, however, that the decision to by-pass democratic institutions and legal norms for the sake of successful implementation of economic reforms have ultimately failed to bring about a sustained improvement in economic performance that such leaders had desired in the first place.

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¹ Özal's decisive influence in a number of key areas ranging from the economic sphere to issues like the Kurdish question has already generated a large literature much of it in Turkish language. For a sample of such studies, see İhsan Sezal and İhsan Dağı (eds.), *Kim Bu Özal? Siyaset, İktisat, Zihniyet* (Istanbul: Boyut Yayıncılık, 2001); Feride Acar, 'Turgut Özal: Pious Agent of Liberal Transformation', in Metin Heper and Sabri Sayarı (eds.), *Political Leaders and Democracy in Turkey* (Lanham, Maryland: Lexington Books, 2002), pp.163-180. Journalistic accounts: Osman Ulagay, *Özal'ı Aşmak İçin* (Ankara: Afa Yayıncılık, 1989), and *Özal Ekonomisinde*

Paramız Pul Olurken Kim Kazandı Kim Kaybetti (Ankara: Bilgi Yayınevi, 1987); Emin Çölaşan, *Turgut Nereden Koşuyor?* (İstanbul: Tekin, 1989). Autobiographical Studies: Turgut Özal, *Turgut Özal'ın Anıları*, compiled by Mehmet Barlas (İstanbul: Sabah Yayınları, 1994) etc. See, Rıfat N. Bali, *Tarz-ı Hayat'tan Life Style'a* (İstanbul: İletişim Yayıncılık, 2002) on the impact of the Özal era in terms of transforming cultural values and elite behavior and life-styles.

² For useful background information on Özal, see Acar, 'Turgut Özal: Pious Agent of Liberal Transformation'.

³ It is important to note that a number of key political leaders in Turkey including Süleyman Demirel and Necmettin Erbakan have been graduates of this key institution of higher learning. Indeed, in all three cases, the individuals concerned have managed to rise from modest roots to key positions of political power and influence.

⁴ See Acar, 'Turgut Özal: Pious Agent of Liberal Transformation', for a valuable discussion of this particular aspect of Özal's political personality.

⁵ On the Bankers' Crisis, Emin Çölaşan, *Banker Skandalı'nın Perde Arkası: Bankerler Batıyor Kastelli Kaçıyor* (İstanbul: Milliyet Yayınları, 1984).

⁶ There is evidence that influential members of the military elite supported the "National Democracy Party" (the MDP) led by a retired general, Turgut Sunalp during the period leading to the general elections of November 1983. Özal was naturally quite apprehensive about this development. See Turgut Özal, *Turgut Özal'ın Anıları*, pp. 33. Yet, the MDP, in spite of implicit military backing could not match the popularity of the ANAP in the general elections.

⁷ For a valuable retrospective analysis of the ANAP, see Ersin Kalaycıoğlu, 'The Motherland Party: The Challenge of Institutionalization in a Charismatic Leader Party', *Turkish Studies*, Vol. 3, No. 1 (Spring 2002), pp.41-61.

⁸ The short but hectic period from March 2001 to September 2002 during which Kemal Derviş assumed a critical leadership role in running the economy, contributing towards the post-crisis recovery process, has already attracted significant journalistic attention. See, Sefa Kaplan, *Derviş'in Siyaseti Siyasetin Dervışı* (İstanbul: Metis Yayınları, 2002).

⁹ On the 1980 program and the scale of financial support see Ziya Öniş, *State and Market: The Political Economy of Turkey in Comparative Perspective* (İstanbul: Boğaziçi University Press, 1998), pp.125-148.

¹⁰ See, Turgut Özal, *Turkey in Europe and Europe in Turkey* (Nicosia: K.Rustem Brother, 1991).

¹¹ On Özal's views concerning the primacy of trade liberalization in creating a genuinely competitive economy and the importance of the EC/EU anchor in this respect, see Turgut Özal, *Turgut Özal'ın Anıları*, pp.290-291.

¹² See Atilla Yayla, 'Liberal Siyaset / Liberal İktisat: Özal Çizgisi' in Sezal and Dağı (eds.), *Kim Bu Özal? Siyaset, İktisat, Zihniyet*. On the concept of "unorthodox

liberalism”, see Ziya Öniş, ‘The Political Economy of Turkey in the 1980s: The Anatomy of Unorthodox Liberalism’, in Metin Heper (ed.), *The Strong State and Economic Interest Groups. The Post-1980 Turkish Experience* (New York and London: Walter de Gruyter, 1991). See also John Waterbury, ‘Export-Led Growth and the Center-Right Coalition in Turkey’, *Comparative Politics*, Vol. 24, Issue 2 (Jan., 1992), pp. 127-145.

¹³ For an elaboration of this point and supporting evidence, see the various articles by Coşkun Can Aktan, ‘Turgut Özal’ın Değişim Modeli ve Değişime Karşı Direnen Güçlerin Tahlili’, *Türkiye Günlüğü Dergisi*, Vol. 40 (May-June, 1996), pp.15-32; ‘Turgut Özal: Liberal Reformist mi, Yoksa Deformist miydi?’, *Yeni Türkiye Dergisi*, Vol 25 (Jan.-Feb.,1999), pp.459-462; ‘Turgut Özal’ın Anayasal Demokrasi ve Anayasal İktisat Üzerine Düşünceleri’, *Yeni Türkiye Dergisi*, Vol 29 (Sept.- Oct.,1999), pp.620-625.

¹⁴ For a detailed elaboration of this point, see Metin R. Ercan and Ziya Öniş, ‘Turkish Privatization: Institutions and Dilemmas’, *Turkish Studies*, Vol. 2, No.1 (Spring, 2001), pp.109-134.

¹⁵ On EBFs and their weight in Turkish budetary process, see Oğuz Oyan and Ali Rıza Aydın, *İstikrar Programından Fon Ekonomisine* (Ankara: Verso, 1997).

¹⁶ On Özal’s criticisms involving the inherently conservative, anti-reformist bias of classical bureaucracy, see Turgut Özal, *Turgut Özal’ın Anıları*, pp.115-118. Also see, Aytekin Yılmaz, ‘Türk Bürokrasi Geleneği ve Özal’, in Sezal and Dağı (eds.), *Kim Bu Özal? Siyaset, İktisat, Zihniyet*, pp.89-101.

¹⁷ It is also interesting that Özal’s thinking in this respect also extended to military elites. Whilst, Özal was always careful not to distance himself excessively from the military establishment, he subsequently expressed his unease in terms of working with the military elites during the early 1980s. See, Turgut Özal, *Turgut Özal’ın Anıları*, p.14. He was also a pioneering politician in terms of the attention that he paid to the civilian control of the military in Turkey. For example, he directly intervened to secure the appointment of General Necip Torumtay as the Chief of Staff of the Turkish Armed Forces in 1987. The intervention by a civilian politician in military affairs constituted an extraordinary move that was unique in the history of Turkish politics. In this context, see, ‘Paşalar Operasyonu’, *Milliyet*, June 18, 1999.

¹⁸ On Özal’s princes, see Mehmet Ali Birand and Soner Yalçın, *The Özal Bir Davanın Öyküsü* (Istanbul: Doğan kitapçılık, 2001), pp.304-306. Prominent examples of such “princes” included Rüşdü Saraçoğlu, as the Governor of the Central Bank, Bülent Gültekin and Cengiz İsrail, as the Chairman and Vice-Chairman of the Privatization Administration respectively, among others. Parallels may be drawn with the “Chicago Boys” in Chile and the appointment of Domingho Cavallo in Argentina.

¹⁹ For a vivid discussion of Özal’s failure to take widespread allegations concerning “fictitious exports” seriously, see Osman Ulagay, *Özal’ı Aşmak İçin*, pp. 35-41.

²⁰ For a detailed documentation of the fictitious exports episode, see Uğur Mumcu, *Serbest Piyasa ve Kemalizm* (Ankara: Umag, 1997).

²¹ On Özal's case for the desirability of a presidential democracy, see Turgut Özal, *Turgut Özal'in Anıları*, pp.141.

²² On the Constitution of 1982, see Ergun Özbudun, *Contemporary Turkish Politics: Challenges to Democratic Consolidation* (Boulder, Colo: Lynne Rienner Publishers, 1999).

²³ On Özal's what appeared to be radical views on the Kurdish Question and his activist approach to foreign policy, see Sezal and Dağı (eds.), *Kim Bu Özal? Siyaset, İktisat, Zihniyet*.

²⁴ On the economic performance of the Özal era, see, Tosun Arıcanlı and Dani Rodrik (eds.), *The Political Economy of Turkey: Debt, Adjustment and Sustainability* (London: Macmillan, 1990); Öniş, *State and Market*. On the economic performance of the 1990s, see, Mine Eder, 'The Challenge of Globalization and Turkey's Changing Political Economy', in Barry Rubin and Kemal Kirişçi (eds.), *Turkey in World Politics: An Emerging Multiregional Power* (Boulder and London: Lynne Rienner, 2001), pp.: 189-215.; Ziya Öniş, 'Domestic Politics versus Global Dynamics: Towards a Political Economy of the 2000 and 2001 Financial Crises in Turkey', *Turkish Studies*, Vol. 4, No. 2 (Summer, 2003), pp.1-30.

²⁵ Examples of such external or exogenous shocks included the Gulf War of 1991, the Asian Crisis of 1997, the Russian Crisis of 1998, the earthquake of 1999 all of which had a profound negative impact on the fortunes of the Turkish economy. Furthermore, the prolonged armed struggle against the Kurdish separatist organization, the PKK, also constituted a significant drain on the country's resources.

²⁶ See, Hasan Ersel, 'The Timing of the Capital Account Liberalization: the Turkish Experience', *New Perspectives on Turkey*, Vol. 15 (1996), pp.45-64.

²⁷ For an elaboration of these points see Dani Rodrik, 'Premature Liberalization, Incomplete Stabilization: The Özal Decade in Turkey', in Michael Bruno(ed.) et al., *Lessons of Economic Stabilization and its Aftermath* (Cambridge, Mass.: MIT Press, 1991); Ercan Kumcu, 'The Unfinished Struggle for Economic Stability', in Morton Abramowitz (ed.), *The United States and Turkey: Allies in Need* (New York: The Century Foundation Press, 2003), pp.31-60; Emre Alper and Ziya Öniş, 'Financial Globalization, the Democratic Deficit and Recurrent Crises in Emerging Markets: The Turkish Experience in the Aftermath of Capital Account Liberalization', *Emerging Markets Finance and Trade*, Vol. 39, No. 3 (May-June, 2003), pp. 5-26.

²⁸ Atypical statement of Özal in this context was "Leave inflation alone and concentrate on rapid growth". See Osman Ulagay, *Özal Ekonomisinde Paramız Pul Olurken*, pp. 132-133.

²⁹ Data reported by Transparency International puts Turkey among high corruption cases. Furthermore, the "corruption perception index" (which ranges between 10 meaning highly clean and 0 meaning highly corrupt) has dropped over time from 4.05 during 1988-1992 to 3.2 in 2002 suggesting an increase of corruption over time. See, Transparency International, *Transparency International Corruption Perceptions Index* available at <<http://www.transparency.org>>.

³⁰ Failure to regulate the banking sector and the absence of transparency and accountability in the public banking system were at the heart of the 2001 crisis. On the 2000-2001 crises, see Yılmaz Akyüz and Korkut Boratav, ‘The Making of the Turkish Financial Crisis’, paper presented at the conference on ‘Financialization of the Global Economy’, PERI, University of Massachusetts, December 7-9, Amherst, Mass. (2002), available at <<http://www.bagimsizsosyalbilimciler.org/bsbcalis.html>>; and Alper and Öniş, ‘Financial Globalization, the Democratic Deficit and Recurrent Crises in Emerging Markets’.

³¹ With full-membership becoming a serious possibility rather than a vague hope in the post-Helsinki era, the economic components of the Copenhagen criteria also constituted a critical source of external discipline for the Turkish economy in line with the IMF reforms. In this respect, Turkey found itself in a more favorable position than Argentina in the post-2001 context.

³² Arguably a free trade agreement with the EU would have been a better alternative to a more restrictive arrangement such as a customs union. But, Turkish policy-makers saw the customs union as a necessary concession on the way to EU membership rather than an end in itself. Hence, the details of the arrangement have not been seriously negotiated.

³³ See in this context, Ziya Öniş, ‘Domestic Politics, International Norms and Challenges to the State: Turkey-EU Realities in the post-Helsinki Era’, *Turkish Studies*, Vol.4, No. 1 (Spring, 2003), pp.9-34.

³⁴ See Kenneth M. Roberts, ‘Neoliberalism and the Transformation of Populism in Latin America: The Peruvian Case’, *World Politics*, Vol.48, No. 1 (Oct.1995), pp.82-116; Kurt Weyland, ‘Neo-populism and Neo-liberalism in Latin America: Unexpected Affinities’, *Studies in Comparative International Development*, Vol. 31, No. 3 (Fall, 1996), pp.3-31; Kurt Weyland, ‘Neoliberal Populism in Latin America and Eastern Europe’, *Comparative Politics*, Vol. 31, No. 4 (July, 1999), pp. 379-401.

³⁵ For a good general discussion of the concept of “populism” both old and new, and its application to the Turkish development experience, see Mine Eder, ‘Populism as a Barrier to Integration with the EU: Rethinking the Copenhagen Criteria’, in Mehmet Uğur and Nergis Canefe (eds.), *Turkey and European Integration: Prospects and Issues in the Post-Helsinki Era* (London: Routledge, 2004, forthcoming).

³⁶ See in this context Luiz Carlos Bresser-Pereria et al., *Economic Reforms in New Democracies: A Social Democratic Approach* (Cambridge: Cambridge University Press, 1993). Specifically on the notion of “illiberal democracy” that seems to be at the hearth of neo-liberal populism, see Fareed Zakaria, ‘The Rise of Illiberal Democracy’, *Foreign Affairs*, Vol. 76, No.6 (Nov./Dec., 1997), pp.22-43; as well Guiellermo O’Donnell, ‘Delegative Democracy’, *Journal of Democracy*, Vol. 5, No. 1 (April, 1994), pp.55-69.

³⁷ See, Nancy R. Powers, ‘Re-electing Neo-liberals: Competing Explanations for the Electoral Success of Fujimori and Menem (or Why Menem is not a Neo-populist)’, *1997 Meeting of the Latin American Studies Association, Mexico*, (April 17-19, 1997)

online paper at the Latin American Studies Association at University of Pittsburgh, available at <<http://lasa.international.pitt.edu/LASA97/powers.pdf>>, last retrieved on September 4,2003.

³⁸ For a more detailed comparison of the respective upbringing of the two leaders, see, Ş. Savaş Karataşlı, 'Rise and Fall of Neo-populists: A Comparative Analysis of Argentine and Turkish Neo-populist Experience', undergraduate term paper, mimeographed, Department of International Relations, Koç University, Istanbul, 2003.

³⁹ On Argentina's economic performance during the 1990s and comparisons with Turkey, see Barry Eichengreen, 'Crisis Prevention and Management: Any New Lessons from Argentina and Turkey?', mimeographed, Department of Economics, University of California Berkeley, 2001 and Ziya Öniş, 'Argentine Crisis, IMF and the Limits of Neoliberal Globalization: A Comparative View from Turkey', mimeographed, Department of International Relations, Koç University, Istanbul, 2002, available at <<http://home.ku.edu.tr/~zonis/THELIMITSOFNEO.PDF>>. Specifically on the Argentine privatization experiment, see Luigi Manzetti, *Privatization in South American Style* (Oxford; New York: Oxford University Press, 1999).

⁴⁰ See Heath W. Lowry, 'Betwixt and Between: Turkey's Political Structure on the Cusp of the Twenty-First Century', in Morton Abramowitz (ed.), *Turkey's Transformation and American Policy* (New York: The Century Foundation Press, 2000), pp.23-59 in this context Although, illegal arms sales charges against Menem are dropped, investigations on other corruption allegations like illegal enrichment while in office and the Swiss bank accounts are continuing. See, 'Arms trafficking case dropped against Menem, but corruption case still on', *Agence France-Presse*, August 28, 2003, available at <http://www.ptd.net/webnews/wed/bu/Qargentina-menem.RZd6_DaS.html>, last retrieved on 5 September, 2003.

⁴¹ See Emin Çölaşan, *Turgut Nereden Koşuyor?*, in this context.

⁴² Argentina occupies a similar position to Turkey in the international league table in terms of the degree of corruption experienced. Moreover, data generated by Transparency International highlight a worsening of corruption practices in Argentina over the course of the 1990s. The corruption perception index for Argentina has dropped from 5.91 during 1988-1992 to 2.8 in 2002, suggesting a dramatic increase in the degree of perceived corruption observed over a relatively short period of time. See, Transparency International, *Transparency International Corruption Perceptions Index* available at <<http://www.transparency.org>>.

⁴³ Özal, for example, argued that increasing economic growth was the only way to deal with the problem of income inequality. See, Turgut Özal, *Turgut Özal'ın Anıları*, p.135.