THE INFLUENCE OF INTERNATIONAL INSTITUTIONS ON PLANNING IN TURKEY IN THE NEO-LIBERAL ERA

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1. Introduction

The planning experience of Turkey can broadly be investigated under two periods: pre-1980’s and post-1980’s. The first period of planning includes the First Five Year Industrialization Plan which was prepared in 1932 and put into force in 1934, the Second Five Year Industrialization Plan which could not be implemented due to World War II (Günçe, 1981; 121), the 1947 Plan which was an important policy document reflecting the will of the government towards radical economic policy changes (Boratav, 2004; 98). However, none of these plans can be viewed as macro plans or national plans. National plans came into picture in the first period of planning in Turkey with the foundation of State Planning Organization and opening up of the so-called “planned period” in the early 1960s. Four Five Year Development Plans (FYDP) were prepared in this period, however the last one covering the 1978-83 period could not be implemented due to radical policy shifts introduced after the 1977-79 crises with the introduction of a stabilization and structural adjustment program backed by the International Monetary Fund (IMF) and the World Bank (WB) in the early 1980s.

The stabilization and structural adjustment program constitute a turning point not only regarding the general framework of macroeconomic policy but also regarding the influence of international institutions on planning/policy making in Turkey. Although loans from international institutions, especially from the WB, were also used during the first three Five-Year Development Plans, Turkish authorities were careful to discuss only the project finance aspects with WB authorities and to exclude the macroeconomic problems and international division of labor from the discussions (Türel, 1981; 648). Even though this approach gave rise to considerable fluctuations in the amount of loans used, Turkey could minimize the influence of international institutions on planning and economic policy making in the pre-1980 period.

Starting from the Fifth Five-Year Development Plan (1985-89), the picture has changed radically. Stabilization programs, IMF Stand-By Agreements and WB Structural Adjustment Loans became a crucial factor in determining the main course of economic policy
making after 1980, Bretton Woods institutions (BWI) became active participants of the policy making process, not to say the determinants, and the reflection of this change could be observed even in the first Five-Year Development Plan of this period. An assessment of the Fifth Five-Year Development Plan was made by Şenses with respect to its parallels with the stabilization and structural adjustment agenda of BWI and the influence of these institutions were put forward in this assessment (Şenses, 1983; 387-408). However, a complete account of the relations between planning in the neo-liberal era and international institutions has not been presented yet.

This paper aims to analyze the indirect influence of Bretton Woods institutions on planning and macroeconomic policy making in Turkey in the neo-liberal era. The subject deserves attention at least for two reasons. Comparing the macroeconomic performance of Turkey in the neo-liberal period with the “planned” period causes some doubts about the success of the macroeconomic policy implemented in this period. Therefore, it is important to identify the culprits of this low macroeconomic performance and international institutions seem to be natural candidates. The second thing is that this low macroeconomic performance points to the need for an alternative development strategy and the influence of international institutions is a binding constraint in this sense.

The paper is organized as follows. After this brief introduction, the second section will discuss the main aspects of policy recommendations of BWI in the neo-liberal era with reference to the Washington Consensus and the emerging Post-Washington Consensus frameworks. The third section will outline the reflections of these policy recommendations on development plans prepared after the radical macroeconomic policy shift of 1980s. Section 4 will conclude.

II. Development Policy Recommendations of International Institutions

Development Assistance Emerging

Between 1870-1913 the world economy experienced an expansionary period that was driven mainly by a laissez-faire trade regime between European countries and their overseas offsprings. The crucial economic outcome of this period was a considerable increase in output and trade between these countries. This period is generally referred to as the first wave of globalization (Williamson, 1997; Yeldan, 2003). The breaking of World War I in 1914
brought an end to this first wave of globalization. Breaking up of trade routes caused decline in trade volumes accompanied by output declines. The Great Depression exacerbated the protectionist attitudes, which continued until the end of World War II. So the period between 1914-1950, which witnessed two world wars and one of the deepest depressions the world has ever experienced, was perhaps the most turbulent period of world capitalism. Other key factors to understand the developments during this period and afterwards were the formation of the Soviet Union during the days of WWI, spreading of socialism to cover one third of the world population after WWII and the strong decolonization movements that emerged simultaneously. These factors were fundamental in the reshaping of world capitalism after the 1950s.

Development economics emerged during the interlude between the two waves of globalization of world capitalism (Yeldan, 2003; 445). Development assistance as a deliberate effort also began at the end of WWII (Hayami, 2003; 2). This effort was dominated by the import substituting industrialization (ISI) strategy, which assigned great role to the state in correcting market failures, in directing resource allocation through planning, in setting up the industrial base of underdeveloped or developing countries. The developmental state was engaged in production, investment and regulation.

Common practice under ISI regime was protection of infant industries through several means such as trade protection, directed credits, and subsidies. Foreign aid, which was an important phenomenon for many countries immediately after WWII, was mostly directed towards infrastructure and industrialization projects¹. Although there was considerable success in terms of creating an industrial base and growth performance in some countries under the ISI regime, this strategy eventually proved to be unsustainable as many developing countries encountered balance of payments or debt crises as of the end of 1970s and early 1980s.

A Shift of Paradigm: Washington Consensus

The failure of the ISI regime laid the ground for the neo-liberal upsurge and a shift of paradigm in development thinking. The ideological pendulum swung from state-led policies

¹ Turkey borrowed loans amounting to 61 million dollars during 1950-62 period, 71 per cent of which was used for infrastructure projects and 29 per cent of which was directed to the private sector via Industrial Development Bank of Turkey (Türkiye İş Bankası) (Türel, 1981; 645).
to market-oriented policies. The main pillars of the new paradigm were individualism as opposed to social solidarity, market liberalism as opposed to state-led development policies, outward orientation as opposed to the emphasis on domestic markets and state contraction as opposed to state intervention. Contrary to the vast role assigned to the state under the ISI regime, the new paradigm restricted the role of the state to securing law and order, macroeconomic stability and the provision of physical infrastructure (Öniş and Şenses, 2003; 2). In other words, the state was only assigned a regulatory role leaving aside the production and investment roles, under the neo-liberal paradigm (Yeldan, 2003; 446).

According to Chang and Grabel, neo-liberalism has three fundamental elements: increasing role of the market as opposed to the state; increasing role and scope of the private sector and private property; and promoting a unique “good economic policy” (Chang and Grabel, 2005; 30). This last element of neo-liberalism has been the most important feature of the involvement of international institutions in the policy making process of developing countries.

Many developing countries, including Turkey, implemented stabilization and structural adjustment programs by the early 1980s. These programs had many elements in common. The failure of previous policies was attributed to state intervention. Protectionist policies created rents and rent seeking behavior associated with these policies led to inefficient utilization of scarce resources. Furthermore, allocation of resources was distorted by price distortions created by protectionist policies. All in all, the argument of market-failure during the ISI period was replaced by the argument of state-failure. So, the immediate solution was to reduce state intervention in the economy and eliminate the tools of state intervention. The policy steps recommended to developing countries by the IMF and the World Bank along these lines were later labeled as the “Washington Consensus”.

Williamson coined the term, Washington Consensus, “to refer to the lowest common denominator of policy advice being addressed by Washington-based institutions to Latin American countries as of 1989” (Williamson, 2000; 251). However, the term gained a wider meaning since the policy recommendations to Latin American countries in 1989 were the essential components of both earlier and later structural adjustment programs implemented by many developing countries and became “the pejorative title of the second generation of
Williamson summarized the original Washington Consensus in ten propositions:

- Fiscal discipline,
- A redirection of public expenditure priorities towards fields offering high economic returns and the potential to improve income distribution, such as primary health care, primary education and infrastructure,
- Tax reform (to lower marginal rates and broaden the tax base),
- Interest rate liberalization,
- A competitive exchange rate,
- Trade liberalization,
- Liberalization of FDI inflows,
- Privatization,
- Deregulation (in the sense of abolishing barriers to entry and exit),
- Secure property rights (Williamson, 2000; 252-253).

The central tenets of the Washington Consensus were “get the prices right” (Öniş and Şenses, 2003; 2) and “get the state out” (Woo, 2004; 7). Interest rate liberalization, competitive exchange rate and trade liberalization were directly related to removing price distortions. The determination of interest rate by market forces, instead of administered negative interest rates, was expected to increase domestic savings and lead to better resource allocation by eliminating the bias towards capital-intensive investment. Competitive exchange rate was also expected to promote export growth. Trade liberalization would help removing the bias against exports through making intermediate goods available at competitive international prices. So, both tariff and non-tariff barriers should be eliminated and imports should be liberalized. Furthermore, redirection of public expenditure priorities included elimination of subsidies (Onaran, 1999; 88) and this was also another way of removing price distortions.

Privatization of state economic enterprises, deregulation and redirection of public expenditures to a few areas were means of removing the tools of state intervention in the economy. Privatization was also based on the argument that state enterprises would be managed more efficiently by private agents (Onaran, 1999; 89). Through these means, the state would relinquish its previous roles in the spheres of production and investment.
Washington Consensus Losing Ground and Leaving the Floor for a New Agenda

The biggest promise of the Washington Consensus to developing countries was higher growth rates. After more than two decades of implementation of these policies, the outcomes are quite disappointing. Average growth rate of world GDP per capita was three times higher in 1960-78 than in 1978-98. Furthermore, this rate was higher for all regions of the world during the first period. The second period presented very weak GDP growth rates for all regions; 0.6 per cent in Africa, 0.9 per cent in Asia, 0.9 per cent in Latin America, -0.4 per cent for East Europe and Former Soviet Union countries and 1.1 per cent for the world as a whole (Milanovic, 2003; 672-673). Moreover, this poor growth record was accompanied by worsening income inequalities and deep economic insecurity in most of the countries that implemented the Washington consensus (Rodrik, 2002; 1).

This obvious failure of the Washington Consensus to bring higher growth rates to developing countries caused it to lose ground. Furthermore, bankruptcies in the banking system after the liberalization of interest rates and replacement of public monopolies by private monopolies in many privatization experiences also discredited the Washington Consensus. The failure of the IMF to successfully manage the Asian crisis and aggravation of the crisis by its interventions was also a critical turning point increasing criticisms about the Washington Consensus. The intellectual attack of Joseph Stiglitz from within the dominant policy circles was another factor to mention (Stiglitz, 2002). Beyond these, increasing protests starting from Seattle were detrimental to the legitimacy of the Washington Consensus. These developments gave rise to the emergence of a Post-Washington Consensus (PWC).

The original ten propositions of the Washington Consensus were mostly about macroeconomic policies. On the contrary, the PWC put the emphasis on institutional development to support these market-oriented policies and reforms. In the new version of the consensus the mantra of the first phase “get the prices right” left the floor for a new mantra, “get the institutions right” (Woo, 2004; 6). Rodrik appropriately refers to this new agenda as “augmented Washington Consensus” instead of Post-Washington Consensus and provides an extensive list of the items of the new agenda:

- Corporate governance,
- Anti-corruption,
Flexible labor markets,
- WTO agreements,
- Financial codes and standards,
- “Prudent” capital account opening,
- Non-intermediate exchange rate regimes,
- Independent central banks/inflation targeting,
- Social safety nets and targeted poverty reduction (Rodrik, 2002; 10).

Öniş and Şenses (2003) also identify the main tenets of the emerging establishment perspective focusing on the work of Stiglitz:
- Recognition that states have an important role to play in the development process,
- Emphasis on the regulation of the financial system,
- State support for education,
- Provision of infrastructure,
- Recognition that states can play a vital role in developing and transmitting technology,
- Assignment of a role to states in promoting equality and alleviating poverty (Öniş and Şenses, 2003; 15).

These two lists indicate that even though there are intensive talks about a Post-Washington “Consensus”, it is yet less than a consensus. Nonetheless, it can be argued that the main features of the new agenda have formed. However, the emphases of the IMF and the World Bank on the main aspects of the “consensus” are not identical. The emphasis of the World Bank on poverty reduction both precedes and far exceeds that of the IMF. For example, James Wolfensohn, who was appointed as the president of the World Bank in 1995, declared the Bank motto to be “Our dream is a world without poverty” (Woo, 2004; 23). However, the IMF endorsed the topic later on in 1999 with the establishment of a Poverty Reduction and Growth Facility “to make the objectives of poverty reduction and growth more central to lending operations in its poorest member countries” (IMF, 2005). On the contrary, the emphasis of the IMF on independent central banks far exceeds that of the World Bank.

**Summing Up**

In conclusion, Washington Consensus and the so-called Post-Washington Consensus determine the main lines of involvement of international institutions on the economic policy
making process of developing countries in the neo-liberal era. However, Washington Consensus still has higher weight in determining the policy recommendations of these institutions. Even though the PWC extends the previous agenda on social policy grounds, there are serious doubts about the possibility of translating the rhetoric into action and about the usage of the emphasis on poverty and income distribution to legitimize the neo-liberal agenda (Öniş and Şenses, 2003; 21).

III. Reflections of “the” Policy Recommendations on Development Plans

This section will discuss the reflections of the policy recommendations of BWI on development plans. The discussion will be limited to the manifestation of the items of Washington Consensus and PWC in these documents. Another aspect of the influence of BWI is obviously the conditionality introduced by these institutions through loans and stand-by agreements, but these are generally not directly contained in development plans since these documents have a longer-term perspective by definition. However, the policy recommendations of BWI manifest themselves through the coincidence of the main agenda of development plans with that of the BWI. In order to illuminate the influence of BWI, the four Five Year Development Plans prepared in the neo-liberal era will be evaluated with respect to their congruity with the BWI recommendations respectively.

Fifth Five-Year Development Plan (1985-89)

The Strategy document of the Fifth Five-Year Development Plan starts with the assessment of the economic situation before the Fifth Five-Year Development Plan, which presents many parallel evaluations with that of the BWI especially regarding the 1970-79 period. The emphasis on an economic environment discouraging exports, acute foreign exchange shortages and inevitability of comprehensive stabilization measures by 1978-79 are among the similarities of these assessments (DPT, 1985; 184). The parallelism between the BWI and Turkish planners is not confined to the evaluation of past economic performance of the economy; the parallelism is much more wide-ranging. It should be mentioned that at the time of the preparation of the Strategy and the Fifth Five-Year Development Plan, a Stabilization Program, which was initiated at January 24, 1980, was still in force. This Stabilization Program was a milestone in Turkish economic history in the sense that it initiated the shift from ISI to export-led growth, outward orientation and neo-liberal policies. Since the Fifth Five-Year Development Plan is the first development plan prepared under the
neo-liberal regime, it is one of the most important policy documents that mark the approval of the Washington Consensus.

The themes of the Washington Consensus that has immense weight in the Fifth Five-Year Development Plan are trade liberalization, securing a competitive exchange rate, liberalization of FDI flows, privatization, redirection of public expenditure priorities and liberalization of interest rates.

**Redirect of Public Expenditure Priorities:**

According to the Fifth Plan, public revenue and expenditure policy will support economic and social development and public investment policy will give priority to economic and social infrastructure investments (DPT, 1985; 2). Moreover, the fiscal management will abstain from new subsidies and existing subsidies will be gradually reduced (DPT, 1985; 34). Agriculture, education, health care, research and domestic security that are related to development and stability will have priority in terms of current expenditures (DPT, 1985; 35). These policies are in line with the redirection of public expenditure priorities and elimination of subsidies, which are among important themes of the Washington Consensus.

**Interest Rate Liberalization**

Beside the themes that present big congruence with the themes of the Washington Consensus, there are some policy issues that do not completely fulfill the neo-liberal agenda. One of the important topics in this sense is interest rate liberalization, which is the most crucial step of domestic financial liberalization. The Fifth Five-Year Development Plan includes steps towards the removal of the administered negative interest rates of the previous period. One of the targets of interest rate policy is increasing domestic savings, implying that savings will be remunerated, i.e. there will be positive real interest rates. Besides, “realistic” interest rates and gradual removal of the preferred credit system are also mentioned (DPT, 1985; 33-34). Even though these are crucial steps, there is no commitment about full interest rate liberalization or domestic financial liberalization.

**Competitive Exchange Rate:**
Exchange rate policy will be implemented so as to maintain competitive advantage and to contribute to the formation of a rational incentive system. Furthermore, steps will be taken towards the gradual transition to floating exchange rate regime (DPT, 1985; 2).

**Trade Liberalization:**

An important aspect of trade liberalization is obviously the removal of import barriers. Decreasing the tariff rates gradually considering the balance of payments situation is mentioned among the main targets and policies of the Fifth Five-Year Development Plan (DPT, 1985; 1). Protection for the new industries will be provided for a certain period at acceptable rates when necessary. However, the rationalization of the protection system and opening the protected sectors to competition will be an essential part of the policy agenda (DPT, 1985; 30).

The counterpart of import liberalization is export-orientation. In order for the liberal import policy not to create a bottleneck in the economy, there is an emphasis on the need to promote exports and other foreign exchange earning activities (DPT, 1985; 13). So, incentives will be provided for exports in order to diversify export goods and promote export growth. Furthermore, the investment policy will give priority to projects that have the potential to increase export capacity. Formation of a social and economic structure that promotes export growth is among the main targets of the Plan. (DPT, 1985; 1). Exchange rate policy is also expected to support the new orientation of the Turkish economy.

As a result of these policies, outward-oriented development policy is expected to render the balance of payments a supportive role regarding development as opposed to its restricting role in the previous period. Furthermore, another aim of this policy shift is to increase efficiency in the economy through increasing competition (DPT, 1985; 13).

**Liberalization of FDI Flows:**

Attention will be paid to the formation of a legal and economic structure that promotes foreign investment (DPT, 1985; 1). Measures will be taken to enable the establishment of off-shore business. The realization of projects with high finance and technological requirements through foreign investments will be encouraged. Free trade zones will be developed (DPT, 1985; 32). Furthermore, a more liberal foreign investment policy will be adopted in order to
accelerate development and alleviate the employment problem, which are bound to limited
domestic resources (DPT, 1985; 13). All these policy measures are serious steps towards the
liberalization of FDI flows.

Privatization:

Privatization is not explicitly pronounced as one of the main targets of the Fifth Five-Year Development Plan. However, it is possible to identify steps towards the coming privatization agenda. The intention to increase the role of the private sector, to assure the operation of State Economic Enterprises (SEE) according to efficiency and profitability principles, to abolish state monopoly in certain commodities like tobacco and tea, and to encourage private entrepreneurship in areas where the public sector had a monopoly are among these steps. Besides, there are also more apparent examples: permitting the sale of the shares of some plants of SEEs to the public, encouragement of private schools, encouragement of private health care services and purchase of services from these institutions by the public sector (DPT, 1985; 41, 144, 152). So, even though the Fifth Five-Year Development Plan does not have an explicit privatization agenda, it also has some parallels with the Washington Consensus regarding this theme.

As a concluding remark, the main themes of the Fifth Five-Year Development Plan had very much in common with the themes of the Washington Consensus. The Fifth Five-Year Development Plan was one of the important documents marking the radical transformation of the Turkish economy and the document reflected this spirit despite its very prudent language when compared to most of the recent macroeconomic policy documents.

Sixth Five-Year Development Plan (1990-94)

The Strategy of the Sixth Five-Year Development Plan starts with the evaluation of the economic situation before the Sixth Plan. The interesting point about this assessment is that it gives a more detailed record of the economic transformation when compared to the Fifth Plan and the evaluation about the economic transformation after 1980 does not show any sign of divergence from the assessment of BWI (DPT, 1989; 335-336). There is a more conscious approval of the policy agenda and one of the main targets of the Sixth is to deepen and broaden the economic transformation. Furthermore, the assessment of recent developments implies that the structural adjustment realized during the Fifth Plan period was
larger than the adjustment initially envisaged by the Fifth Plan. For example, even though there was not a deliberate emphasis on privatization in the Fifth Plan, it is stated that privatization of SEEs started in order to increase competition and efficiency in resource utilization. Another example is about domestic financial liberalization. Even though there was not a clear reference to the liberalization of interest rates in the Fifth Plan, it is stated that a more liberal system has been adopted in the determination of credit and deposit rates. Furthermore, there has been a shift towards indirect taxes regarding fiscal adjustment, Istanbul Stock Exchange and a foreign exchange market were established (DPT, 1989, 336). So, it may be argued that the structural adjustment in Turkey was faster than initially expected.

In congruence with its main target about deepening the economic adjustment, the Sixth Five-Year Development Plan has very much in common with the themes of the Washington Consensus. The emphasis on the role of the private sector, on competition, on free market economy, on restricting the role of the public sector to directing the private sector and providing incentives and on integration to the world economy are some of the frequently used key phrases that point to the harmony with the agenda of BWI. In addition to the common themes with the Fifth Five-Year Development Plan, fiscal discipline emerges as another theme in line with the Washington Consensus in the Sixth Plan.

**Fiscal Discipline**

Regarding the fiscal discipline, the Sixth Five-Year Development Plan takes an inconsistent stance. On the one hand, there is a repeated emphasis on the necessity to decrease the fiscal deficit, to increase revenues, to decrease expenditure, to consider saving priorities regarding public employment, to allocate resources to public investment on a rational basis; on the other hand there is a preference towards decentralization of the fiscal management through extra-budgetary funds (DPT, 1989; 33). However, there is an explicit recognition of fiscal deficits as a cause of inflation, which signals a convergence towards the Washington Consensus (DPT, 1989; 35).

**Redirection of Public Resources**

Public investment will be directed towards economic and social infrastructure projects. A higher share of public investment will be attributed to education, health care services and agriculture compared to the shares in the Fifth Plan (DPT; 1989; 11)
**Interest Rate Liberalization**

An evaluation of the preferred credit system will be made by a cost/benefit analysis and according to these findings, steps will be taken towards narrowing the preferred credit system (DPT; 1989; 32).

**Competitive Exchange Rate**

The policy of determining the exchange rate under market conditions will be continued. Preparations towards the convertibility of the Turkish Lira will be made (DPT; 1989; 2). Furthermore, the requirements of international competition will be considered.

**Trade Liberalization**

Efforts towards liberalizing and simplifying the trade regime will be continued in order to increase efficiency in resource allocation and protect consumers (DPT; 1989; 2). Exports and other foreign exchange earning activities will be supported. Relative price structure in the economy will be formed so as to eliminate the discouragement towards exports. Diversification of export goods and sale of higher value added products will be encouraged. The incentive system will primarily be based on indirect incentives, instead of direct ones. Export credits, export insurance and export credit insurance systems will be used in this context. Exchange rate policy will be managed according to the international competition requirements (DPT, 1989; 27). Import liberalization will be continued in order to increase competition, raise the productivity level and protect consumers. Gradual dropping of tariff rates will be continued in this context (DPT; 1989; 27-28). Moreover, steps will be taken to harmonize the trade regime with that of the European Community in order to satisfy the obligations arising from customs union (DPT; 1989; 29). These steps, will take the efforts towards trade liberalization further.

**Liberalization of FDI Flows**

Existing liberal policies regarding foreign investment will be continued. Legal framework of foreign investments will be updated to contain foreign investment in the broadest meaning of the term. Foreign investment in stocks will be encouraged. Foreign finance will be used for infrastructure projects through means as Build-Operate-Transfer. Double taxation of foreign investment will be prevented thorough bilateral agreements.
Privatization and free trade zones will be used as means to increase foreign investment (DPT; 1989; 30). These steps go beyond the liberalization of foreign direct investment flows and contain elements encouraging foreign financial flows at the same time. Although there is no explicit policy about capital account liberalization in the Sixth Plan, this is again one of the areas where adjustment was faster than expected and capital account was liberalized even before the Sixth Plan was put into force.

**Privatization**

In the Sixth Five-Year Development Plan privatization is explicitly mentioned as a means of increasing economic efficiency and broadening the property base. So, this time, the emphasis about SEE policy is not on operating these units according to efficiency and profitability principles but on the rapid privatization of these institutions in order to reach the above mentioned ends. Those SEEs which are outside the privatization program will continue their efforts to compete in world markets and will have the opportunity for joint investments with foreign investors to modernize their technology and production structures (DPT; 1989; 34-35).

Beyond the privatization of SEEs, there are other fields where the privatization agenda penetrates. Private radio and TV broadcasting will be given importance, privatization efforts in the electricity sector will be continued, a structure permitting the simultaneous operation of private and public companies in this sector will be formed, the required administrative regulations in order to privatize the activities in public harbors will be made, private airlines companies will be supported, private sector will be encouraged for the provision of health care services, private schools and waqf universities will be encouraged and private sector will supported to assume a major role in the production of education equipment (DPT; 1989; 39, 259, 274, 291, 294). The Fifth Plan paved the way for privatization through rendering efficiency and profitability as the basic operating principles of public sector enterprises. The Sixth Plan, on the other hand, saluted privatization as one of the most important means of “getting the state out” and increasing the role of the private sector in the economy.

As a concluding remark, it can be argued that the Sixth Five-Year Development Plan is a step forward in the convergence of the policy agenda of Turkish economy with that of the BWI. This is not only evident in the increasing number of items of the Washington Consensus,
which had their manifestation in the Sixth Plan, but also in the deepening of the existing themes.

**Seventh Five-Year Development Plan (1996-2000)**

The first thing to mention about the Seventh Five-Year Development Plan is that it was put into force with a one-year delay because of the 1994 crisis and the stabilization program adopted after the crisis. So, the Seventh Plan was prepared in 1995 reflecting the major aspects of crisis management. The 1994 crisis is largely attributed to fiscal imbalances in the Seventh Plan. Starting from 1989 budget deficits started to increase mainly due to sharp increases in wage rates and increases in interest rate expenditures. Moreover, 1989 was also the date of capital account liberalization in Turkey. High domestic interest rates caused large inflows of short-term capital and a corresponding overvaluation of the Turkish Lira. Overvalued TL, together with strong domestic demand due to sharp wage increases, led to a boom in import demand. Furthermore, the competitive advantage of the Turkish industry was undermined by the overvaluation of the domestic currency, increasing labor costs and decreasing export incentives, leading to stagnant exports. So, the fiscal deficit laid the ground for a large external deficit leading to the 1994 crisis. The main aspect of the response to the crisis was fiscal adjustment. Measures were taken both to increase public revenues and decrease expenditure, including introduction of new taxes, investment cuts, reduction of transfer to SEEs, ceasing new employment in the public sector (DPT, 1995; 5-6). The influence of crisis management measures is largely felt along the Seventh Plan.

Another important point about the Seventh Plan is that it was prepared in a conjuncture where the globalization narrative was very influential. This is very apparent in the assessment of world developments (DPT, 1995; 1-4). Reference to liberalism as a common value, to the importance of international norms and rules, to the impossibility of policy making without considering external developments and to transition to information society in the very first lines of the Plan, obviously reflect the emphasis on the globalization process (DPT, 1995; 1). It is stated that Turkey faces a big challenge of transforming both the society and the economy under the new world conditions (DPT, 1995; 4). This new approach is also reflected in the organization of the Plan; it is organized as a collection of structural transformation projects in many fields.
The date of the preparation of the Seventh Plan also coincides with the emergence of the Post-Washington Consensus. It may even be argued that some major aspects of PWC overtook some aspects of the Washington Consensus in the Seventh Plan. One reason behind this is evidently the fulfillment of major recommendations of the Washington Consensus by the mid 1990s. So, I will not go over the old-fashioned topics in the Seventh Plan, but discuss topics that have a different flavor when compared to the previous plans and the new themes parallel to the themes of the two consensuses.

**Fiscal Discipline**

Improvement of public finances is among the main targets of the institutional reform agenda of the Seventh Plan. Decreasing public sector borrowing requirement and financing the deficit through a debt policy that will not create instability in the financial markets will be basic principles of fiscal policy. Fiscal discipline will have a determining effect on public expenditures policy; transparency and accountability of public expenditures will be assured. New employment will not be created in the public sector unless compulsory (DPT, 1995; 195). The principles guiding the fiscal policy of the Seventh Plan are in line with fiscal discipline emphasized as a crucial aspect of the Washington Consensus. Fiscal imbalances are regarded as a source of dislocation in the economy in the Plan; both the 1994 crisis and the chronic inflation are mainly attributed to fiscal deficits. However, it is well known that the public sector continued to give large fiscal deficits during the implementation of the Seventh Plan and the targets of the Plan were missed. So, the emphasis on fiscal discipline can confidently be attributed to the stabilization program that was put into force in April, 1994 and to the IMF as the major stakeholder of the stabilization program.

**Privatization**

Privatization is regarded as one of the structural transformation projects of the Seventh Plan. Although there was an emphasis on privatization in the Sixth Plan and even before, the implementation of the privatization program was not successful mainly due to the deficiencies in the legal framework regarding privatization. In 1994, the privatization law was enacted and the Seventh Plan takes a determined stance regarding the privatization agenda. The main aims of the privatization program are integration with the world markets, increasing productivity, acquiring a competitive cost structure and creating free market conditions. Privatization is also expected to help decreasing budget deficits and public sector debt stock (DPT, 1995;
Through the rapid privatization process, it is aimed to reduce the role of the public sector in manufacturing industry and limit the economic role of the state to agricultural support, petroleum products, railway transportation, telecommunications and electricity production (DPT, 1995; 168).

**Property Rights**

It is stated that the existing legal framework regarding intellectual and industrial rights in Turkey became obsolete as a result of technological developments, which necessitated the recognition of new ways of protection, including protection of software, databases, product designs, etc. Therefore, updating this legal framework is appraised as a crucial aspect.

**Flexible Labor Markets**

Increasing the efficiency of the labor market is assessed as part of the solution of social problems including the challenge regarding employment creation. Reduction of employment taxes to EU levels, increasing both job security and flexibility of the labor market, regulation of non-standard employment, increasing the qualification of the labor force, implementation of active labor market policies, reorganization of Turkish employment agency are among the envisaged policy steps (DPT, 1995; 54-55). The emphasis on increasing labor market flexibility, regulation of flexible employment, part-time employment and other non-standard employment types are very much part of the PWC.

**WTO Agreements**

Turkey became a member of the WTO in 1995 as soon as the organization was established. So, the WTO rules, which are more binding than the rules of GATT, were considered in the Seventh Plan.

**“Prudent” Capital Account Opening**

Turkey completed its capital account liberalization without any sign of prudence in 1989 without a mention about it in the Sixth Five-Year Development Plan and this very early act before attaining macroeconomic stability was one of the determining imbalances discussed in the Seventh Plan. So, we can argue that “prudence” is, in fact, not part of the consensus even though capital account liberalization is.
Role of the State

The Seventh Plan attaches a complementary role to the state in order to reach the economic and social targets (DPT, 1995; 2). According to the assessment in the Plan, the state could not withdraw from production and distribution activities during the Sixth Plan and abandon interventionist policies. However, under market economy conditions, emphasis should be put on the regulatory and supervisory role of the state (DPT, 1995; 11). Furthermore, improving the regulatory and supervisory role of the state is one of the structural transformation projects of the Seventh Plan. According to this project, direct intervention of the state to the economy should be minimized and the state should provide the efficient functioning of the market (DPT, 1995; 90). Furthermore, contracting state is seen as a precondition of fulfillment of essential state functions (DPT, 1995; 20).

However, the public sector is also attached responsibility in science and technology policy. It is recognized that the collaboration of the public sector with the private sector is essential for technological capacity building (DPT, 1995; 72). Encouragement of science and technology is seen as an indispensable aspect of the technological leap required towards transition to information society (DPT, 1995; 73).

In conclusion, the Seventh Plan assumes most of the agenda put forward by Bretton Woods Institutions and even goes beyond that in some crucial areas like capital account liberalization. The Seventh Plan broadens the structural adjustment agenda infields like labor market, property rights and further integration with the world economy through WTO agreements.

Eighth Five-Year Development Plan (2001-2005)

Although the Seventh Plan had an explicit target towards attaining macroeconomic stability, the actual performance of the economy was far from this target. The Turkish economy was characterized by increasing fiscal deficits, high inflation and volatile interest rates during the Seventh Plan period. Real interest rates reached unsustainable levels as a result of the pressure exerted by high fiscal deficits on the domestic financial markets and created a vicious circle of increasing deficits and increasing public debt stock. A comprehensive medium term stabilization program attained high priority on the agenda. By the end of 1999, Turkey made a stand-by agreement with the IMF for a 3-year program
covering 2000-2002 period. The main objectives of the program were to bring the inflation rate down to single digit levels, to reduce real interest rates, to improve the fiscal stance, to put the Turkish economy on a sustainable growth path through the implementation of structural reforms. Tight fiscal policy, a high primary surplus target and incomes policy in line with the inflation targets were at the heart of the program. Moreover, structural reforms included fields like agricultural support system, social security, fiscal management, tax reform, regulation and supervision of the banking. It should also be mentioned that the conditionality in the 2000 program was much stricter than the previous stabilization programs Turkey implemented.

The Turkish Grand National Assembly approved the Eighth Five-Year Development Plan in June 2000, six months after the beginning of the implementation of the IMF-backed macroeconomic program. So, the Eighth Five-Year Development Plan perhaps reflects the deepest influence of BWI in the neo-liberal era. The emphasis on fiscal discipline, macroeconomic stability, reducing inflation, privatization, public sector reform and social security reform all have their counterparts in the letter of intents prepared in the context of the 2000-2002 stabilization program. So, besides the congruence with the Washington Consensus, the Eighth Plan took over all items of the stabilization program. Moreover, the Eighth Plan endorsed some of the themes of the Post-Washington Consensus, namely the regulation and supervision of the financial system, which is a manifestation of “getting institutions right”, and promoting equality and targeting poverty reduction.

**Regulation and Supervision of the Financial System**

The Eighth Plan puts an emphasis on institutional reform, especially in the financial sector. Risk management and internal control systems will be formed for financial sector institutions in order to provide continuous supervision of the system. Moreover, in order to prevent systematic risks in banking sector, the Banking Regulation and Supervision Agency will take necessary measures to ensure transparency of the system and of its working according to international criteria (DPT, 2000; 30). This is an important step towards the recognition of the need to regulate and supervise markets in order to guarantee their efficient operation, in line with the Post-Washington Consensus.

**Promoting Equality and Targeting Poverty Reduction**
Perhaps, the most constructive theme in the Eighth Plan was the recognition of the increasing need for social assistance and services and the declared intention to reduce income inequality and alleviate poverty. Furthermore, it is stated that social protection programs have not been efficiently implemented. The economic environment characterized by high inflation and high burden of interest payments have restricted the possibilities of implementing social policies to improve income distribution and reduce poverty in particular (DPT, 2000; 75-76). Even though the general assessments about income inequality and poverty are correct, the policy tools to reach these ends are not defined (DPT, 2000; 101-102). So, it should not be expected to have positive outcomes in these fields. As it is the case for the themes in the Post-Washington Consensus, the emphasis on income inequality and poverty reduction in the Eighth Plan also serves legitimization of the neo-liberal agenda, which lost ground as a result of frequent crises in Turkey.

As a concluding remark, it should be mentioned that the Eighth Plan is a further step towards the fulfillment of the agenda of Bretton Woods Institutions.

**IV. Conclusion:**

The failure of the ISI regime, which was widely adopted by developing countries before the 1980s as a development strategy, led to a shift of paradigm in development thinking. The main tenets of the neo-liberal paradigm were market liberalism, outward orientation, state contraction and the propaganda of a unique “good economic policy”. This last element was one of the most important means enabling the involvement of international institutions in the policy making process in developing countries. The Bretton Woods Institutions had a leading role in this respect.

The story was quite the same for Turkey; the adoption of the neo-liberal agenda increased the involvement of BWI in macroeconomic policy making. The influence of BWI was not only realized through the conditionality imposed via the structural adjustment or stabilization programs. It should be admitted that this was a very important channel. Nevertheless, another channel existed; this was the hegemony of BWI recommendations over development thinking. So, major themes of these recommendations had their reflections in the policy documents of developing countries, including Turkey.
The four Five-Year Development Plans of Turkey belonging to the neo-liberal era also had many common elements with the general framework of BWI recommendations that are summarized in the Washington Consensus and the Post-Washington Consensus. Each plan was a step forward in the deepening and broadening the BWI agenda. Washington Consensus themes, which are basically related to the macroeconomic policy issues of structural adjustment, were dominant in all plans. Moreover, the last two plans had some common themes with the PWC implying that the emerging agenda also had reflections in plans.

Beyond the direct influence of international institutions, the parallelism between the development plans and the agenda of BWI should be seen as a sign of the impairment of independent policy-making capacities of developing countries through an intellectual hegemony. This is perhaps the largest cost of the neo-liberal era for most developing countries, certainly including Turkey.
References:


