Is Turkey going to be Argentina?

Isik Ozel

During my last trip from the USA to Turkey, a cab driver asked me what I thought about the recent economic crisis in Argentina. I was shocked. Cab rides in America rarely get beyond the directions to your destination. Before I could recover, he started talking about Argentina, about its similarities with Turkey. I was impressed. I couldn’t wait to tell Erik about the incident. Erik, the professor whom I work with, and I had been organizing a project comparing Turkey and Argentina in terms of political economy. Terrific. At least the cab driver might read my dissertation. Within a couple of days in Istanbul, I realized that he was not the only one interested in Argentina: local cab drivers, business owners, restaurant patrons, everyone from professional politicians to laymen talked about the topic.

It seems that the Turkish collective psyche has found a new case of comparison to define its confused identity: Argentina! Anyway, the Turkish identity has historically been redefined over and over again since the mid-nineteenth century, the historical turning point for Ottoman modernization. From the imperial Ottoman-ness to the ’invented’ Turkish-ness, this identity has traveled various paths and undergone dramatic shifts, as it was refused by some of the models it encountered. While Turkey tried very hard to Westernize itself by distancing itself from the so-called ’East,’ the ’West,’ indeed, has not welcomed the newcomer. Thus, Turkey had to make do with a ’neither Western nor Eastern’ identity *sui generis*, which has a hidden ’nobody wants us’ connotation.

Algeria, Iran or Argentina?

Ever since February 2001, the advent of the biggest economic crisis in the eighty-year-old history of the Turkish Republic, the crescendo of the public outcry against the International Monetary Fund (IMF) continues to grow. Composed of 183 member countries with considerably different voting powers (such as USA: 17%, Great Britain: 5%, Germany: 6% and Turkey: 0.5%), the IMF aims to promote international monetary cooperation, exchange stability, and orderly exchange arrangements, to foster economic growth and high levels of employment; and to provide temporary financial assistance for countries to help ease the balance of payments adjustment. Especially this last role played by the IMF is crucial for the current context in Turkey, as the IMF imposes severe ’conditionalities’ on Turkey in exchange for the loans, which would hopefully ease the balance of payment problems. The demand to freeze the wages and salaries (or allowing a minimal increase which should definitely be lower than the rate of inflation), which is one of the main headings in the conditionality package of the IMF, already triggered a significant public reaction and gave rise to early mass protests.

Those protests include the names of countries from the remote parts of the world; Argentina, suffering from a similar situation, particularly connotes a symbolic boundary of the crisis: "Turkey is not going to be Argentina!" Expectedly, the underlying worry is whether the recent crisis will become similarly severe -- with the metaphor of Argentina implying frozen salaries of government employees and savings deposits, and widespread social unrest to the point of vandalism and fierce mass protest against a state incapable of fulfilling its basic functions.

Before the current crisis, the common slogan at the protests used to be: "Turkey is not going to be another Algeria or Iran," symbolic of the attempt to resist the rise of Islamic fundamentalism. Since Turkishness has historically been defined in relative terms (in relation to the ’West’ and the ’East’) and hence via the creation of an ’other,’ this definition has continuously been updated as the process of othering shifted its focus. Now, a country in South America constitutes the base for such an identity construction in relative terms. Experts go to Argentina and ’report’ what they see there, why Turkey cannot be considered similar to Argentina, and strike a tone which they hope will appease the discomfort of the masses. Obviously, the most striking common denominator they use is the role of the IMF in ’twisting’ the dynamics of the economies as well as societies by intervening in distributional issues. The social democrat opposition to the current coalition (the coalition consists of a social democratic party -- the DSP --, an extreme nationalist party -- the MHP-, and a right-of-center party -- the ANAP) tends to argue that if the IMF continues to *make*economic policies in Turkey, Argentina will be the ultimate destiny. The metaphor of Argentina basically implies widespread social unrest and mass protests against a state incapable of fulfilling its basic functions.[1] The more liberal wing of the societal opposition, on the other hand, asserts that insufficiently applied IMF-led policies gave rise to last year’s crisis and that the situation will deteriorate if corporatist policies continue to be implemented for political purposes. Should liberalization be considered the cause or the inevitable outcome of the crisis? Or are such crises inherent in the clientele-corporatist structures of so-called developing countries, countries that are trying to shift from an inward-oriented import substitution strategy to an export-oriented one that focuses on market reforms? Who are the main losers of these vicious and virtuous cycles?

Eye of the Tiger, Thrill of the Fight

Let us start with the latter -- and relatively easier one -- of those loaded questions. In foreign newspapers, economic analyses of the financial disaster in Turkey often concluded with the formulaic claim that "the main victims of this crisis are the common people." There is, however, more to say about the situation in Turkey than such blanket statements have to offer. Without a doubt the lower, lower-middle, and middle classes have been hit harshly, as their real incomes dropped by almost fifty percent over night, following the devaluation in February 2001. Nevertheless, for the first time ever since the launching of liberalization programs in 1980, the upper-middle class has found itself on the losing side, while those providing high-skilled labor (engineers in the rising sectors, bankers, managers in the private sector, etc.) have also been hit severely. In the financial sector alone, almost thirty thousand people -- most of whom were high-skilled bankers, brokers, etc. -- have been laid off following the crisis. Were the relatively wealthy 1990s an illusion then for the *nouveau-riche* yuppies of Istanbul, who enjoyed considerably high incomes and who had internalized a global yuppie way of living -- from activity-based life in cosmopolitan Istanbul to the ’cool’ trips to the hidden islands in Bali? Without even imagining the probability of reversing their fancy lives to the bad-old days without a flourishing financial sector, the yuppies were shocked just as much as the lower classes that had more experience in adapting to such usual shocks. When one thinks of a lower-class family who had barely made a living before the crisis, the post-crisis scenario does not appear pleasant.

Amazingly enough, the shock gave rise to a stage of complete frustration and self-mocking, the most important reflection of which was to be found on TV screens for two months after the crisis. A new show on television encapsulated the quintessential experience of mockery: the competitors (generally from the upper or upper-middle class) were given the minimum wage for a month and they were asked to live on it. Then, as in the movie *EdTV*, every second of their daily lives was filmed. Except for rent, they had to cover all their expenses on less than one hundred dollars a month, while obeying the food and art expense quotas determined by the creators of the show, who regulated the amount of meat, milk, and vegetables to be bought as well as conditions such as purchasing a book per month. The rule was simple: if you managed to live on your minimum wage income, you earned a major prize. In the second installment of the show, two couples compet ed with one another and whoever had more money left at the end of the month would win. They were both single breadwinner families. In one instance, the younger couple was accused of "lying" by the older couple, who claimed that it would be impossible to get movie tickets, given the money at their disposal. The younger couple reacted quite strongly against this moral critique and left the competition by spending the rest of the money on hairdressers and eating out. Another younger couple substituted them on even harsher conditions: they had to live on the money left by the previous couple! Given that the amount was so ridiculously low (about twenty dollars for two weeks), the breadwinner of the new couple (men by definition!) had to go to work by walking. In a gigantic city like Istanbul, the distance between home and work was more than ten kilometers. This wearisome journey was accompanied by an eighties song by Survivor: *Eye of the Tiger*.

Ultimately, the young couple survived and won a great prize that was the mythical outcome of suffering, as celebrated by the dramatic lyrics: "It is the eye of the tiger / the thrill of the fight / rising up to the challenge of our rival..." In the context of the TV show, these words implied a peculiarly mixed message not only of mockery, but also of pride.

Who takes the blame?

Pointing to the IMF as the scapegoat of what has happened would be an easy, but not a satisfactory answer. The IMF has been in Turkey on and off for almost four decades as the balance of payments problems became severe, and it had varying levels of authority depending on the type of conditionality it imposed as the major cost for its loans. If one interprets the market reforms (opening the domestic markets to foreign competition, privatization, getting rid of state control on prices, subsidies, etc.) as an outcome of the IMF conditionality, then the IMF could be the answer. In taking this stance, however, one would completely ignore the deliberate policies of governments committed to implement ambitious liberalization programs, as well as the structural weaknesses of an economy that became increasingly vulnerable faced with the mechanisms of liberalization and the political demands of the electorate. From this perspective, surmounting the domestic debt[2] needs to be underlined as one of the core problems giving rise to the crisis. An increasing public deficit in the 1990s -- exacerbated by increasing real interest rates -- was the major source of domestic debt. Following the relatively low-dose crisis of 1994, payments on foreign debt started to create another major pressure on the financial markets and kept the real interest rates high. High inflation rates resulted in even higher real interest rates in the second half of the decade. At this point, the vicious cycle started: high interest rates bolstered the need for public debt further. Although government spending could have been used as a panacea to cope with the debt problem, the opposite became the reality for Turkey in the 1990s: a lack of discipline in public finance, excess-employment policy in the public sector due to electoral concerns, an increase in salaries without any reflection on productivity increase, excessive costs of public investment, increasing deficits in social security institutions, subsidies given to agriculture and high costs of state-owned enterprises. On the other hand, when one looks at the revenue side of the picture, a major discrepancy between the real (and high enough) tax rates and the 'actual' tax revenues seems striking. The incapacity of the state to collect taxes and unfair distribution within the tax system brought about low tax revenues.

Chronic problems in the financial sector were caused by both state-owned and private banks. The former group created even more severe problems as they increasingly borrowed short-term and high-cost credits from the market, which fostered the high interest rate problem even further. Private banks then started financing the public deficits, rather than providing resources for the real economy. In addition, a high inflation rate throughout the decade and pervasive uncertainties diminished the confidence in the Turkish Lira and made people rely on short-term savings and particularly foreign currencies. [3] From state employees (among whom the author's own parents are included) to workers, everybody would convert her/his salary or wage into Deutsche Mark (the most popular currency in the first half of the 1990s) or into US dollars, irrespective of the amount. Some lucky yuppies in the rising sectors did not feel the necessity to go to one of the currency exchange places mushrooming at every single corner. But they were already paid in US dollars. As a result of this escape from the Turkish Lira, foreign currency liabilities augmented. Combined with the increasing foreign debt of the private banks, this made the banks considerably vulnerable to exchange rate fluctuations. Therefore, the economy in general was so vulnerabele that a little conflict, which could otherwise have been trivial, triggered the crisis: the prime minister Ecevit argues with the president Sezer at a regular meeting and the markets crushed the following day.

Following the February 2001 crisis, the Turkish government signed a ’Letter of Intent’ prepared by the IMF. Through the ambitious content of this letter, the government thus committed itself to implement agressive policies whose principal aim is "to separate politics from economics." In addition to coping with the immediate impacts of the most severe crisis of the eighty-year-old history of the republic, they committed to tackle the chronic problems of the Turkish economy by erasing the impact of politics on economics, if that is possible at all.

The directive to distance politics from economics is not a recipe *sui generis* only given to Turkey, but it is one of the widely emphasized panacea recommended to the crisis-hit developing countries. In addition, this struggle is intensely debated within the context of globalization as well. There is a wide consensus that globalization affects developing countries the most -- both in terms of being capable to provide ample opportunities and in possibly reversing all those opportunities overnight. The Asian Crisis, which emerged only five years ago, was an archetypal example of the ’reversing the opportunities’ part of the story. Capital became so mobile that it even made economic policy-making obsolete in those cases. Back then, the disaggregation of politics and economics was realized almost automatically and brought about the process of capital inflows. The picture was nice and perfect until that same capital decided to leave after seeing the first signs of crisis in Thailand. Ironically, after the crisis had spread all over Southeast Asia and even East Asia (Japan and South Korea), the recipe of the institutional lenders of the world was still the same: separate politics from economics. Overall, this recommendation boils down to the classic notion of the ’nightwatchman state,’ not watching the invisible hand even in the pitch dark. Thus, whether the allegedly abstract forces of globalization make domestic politics fade away or whether they necessitate it more than ever, especially in more vulnerable geographies, is still subject to debate. Something to talk about the next time I take a cab.

Footnotes

[1] Ironically enough, the Prime Minister Ecevit (from social democratic party in the coalition) himself used to be one of the fierce opponents of IMF loans during the 1970s.

[2] The ratio of the domestic debt to the Gross National Product increased from 6% in 1990 to 42% by the end of 1999.

[3] The share of foreign currency savings in total savings increased from 25% in 1990 to 45% in 2000.

ISSN 1439-1163,URL:http://parapluie.de/archiv/cyberkultur/tuerkei/