

## Chapter 23

# Three Economic Depressions of the Turkish Economy: A Structural Perspective for Development Strategy

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### ABSTRACT

*The aim of this chapter is to analyze the three depressions of Turkish economy, which are the period of Second World War, the second half of the 1970s, and between 1994 and 2001. In these depression periods, the supply-demand balance completely deteriorated, and the economy completely collapsed. The economic paradigm changed after each depression, but economic problems have never changed. As very different economical models, étatism, planning import substitution industrialization, neoliberal economy policies have been tested for Turkish economy, but none of them has been successful. The lack of knowledge of facts of economics is the main cause of depressions. For innovative strategy, the Turkish economy needs more free market and deregulation.*

### INTRODUCTION

Recession, crisis and depression have slightly different meanings from the perspective of economy. Recession is defined as an economic slowdown in macroeconomic indicators such as investment spending, capacity utilization, household income etc., but mostly GDP. It can also be defined as a failure in economic growth. A crisis, which has negative indicators for these macroeconomic indicators, may be accompanied by high inflation and high unemployment rate. Depression is not only deterioration in economic indicators but also a social despair, and certain deterioration of supply-demand balance. Expectations are totally low and yield no hope that it would improve. A crisis becomes a depression when it is misdiagnosed and continues for a long time.

Although the Turkish economy has gone through many economic recession and crises, three of them can be defined as depressions. The economic paradigm changed in the Turkish economy after

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each depression since the current situation became unsustainable. Although these three depressions occurred in different times and structures, they had common features such as étatism and non-free market economy policies.

The first depression in the Republican period occurred during the Second World War. During this depression, the supply-demand balance deteriorated so drastically that even bread was rationed and the poor began to starve. The Second World War was effective in this crisis because the recruitment of more than one million people created a labor force problem in agriculture sector which was the dominant one at that time. Even though Turkey declared to be unbiased at the beginning of the Second World War, the war conditions were a determinant of the depression because the recruitment of a large number of people created insufficient labor force problem in agriculture sector. In addition, the defense expenses increased dramatically. However, the main reason of the famine that occurred during the war was wrong non-free market economic interventions made by the state such as the National Defense Law, Wealth Tax, Decision of 25% and the Law Numbered 452, Agricultural Product Tax, and the Law on Provision of Land to Farmers.

The second economic depression occurred at the end of the 1970s. After the relatively free market economy in the period of 1950-1960, the étatist, import substitutional and planning-based economic policies were implemented during the 1960-80 period. For this purpose, the government started to prepare five-year development plans which were guiding for the private sector and ordering for the public sector. With these plans, the state was in the command room and it controlled the economic activities.

After the 1978-79 depression, new economy policies were introduced on 24<sup>th</sup> January 1980. These economy policies mostly consisted of neoliberal economy policies such as liberalization, free market, deregulation, privatization, fiscal discipline, and foreign direct investment. The transition to neoliberal economic policies implies a certain separation from the economy policies of the earlier periods. However, the implementation was not as fast as the declaration.

On one hand, foreign trade and financial movements were liberalized. On the other hand, structural issues such as budget discipline, inflation, and privatization were under construction for a long time. Thus, the Turkish economy tried to compete with the entire world with this cumbersome structure. Therefore, there were many economic crises in the 1990s, which we can call 'the crisis period'. Since the coalition governments managed the economy with daily politics and regardless of structural problems, the accumulated problems also caused another depression in 2001.

Transition to the Strong Economy Program started to be implemented after the 2001 depression under the consultancy of Kemal Derviş, who is World Bank's economist. Although the program consisted of neoliberal economic policies, it contained a definite political commitment since the opposite was not possible. Thus, unaccomplished structural reforms started to be applied. Transition to the Strong Economy Program contained regulation for five key areas: financial sector, transparency in public sector and budget discipline, competition and efficiency, and real economy. After the implementation of the program in the period of 2001-2008, Turkish economy acquired the public discipline, lowered the inflation to single digits, and was raised to middle-income countries level. Thanks to these structural reforms, Turkish economy was less affected by the 2008 Financial Crisis.

The aim of this paper is to analyze the common features of the three depressions in Turkish economy. With this aim, firstly, I explain the terms of recession, crisis and depression. Thereafter, I analyze these three depressions and their common features by focusing on the macroeconomic indicators of the depressions.

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