POST-WASHINGTON CONSENSUS IN ACTION: LESSONS FROM TURKEY

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Over the past ten years, a paradigm revision has occurred in the mainstream of development thinking. The crude neoliberalism of the 1980s and much of the 1990s, encapsulated in the highly contested notion of "Washington Consensus", is no more. Rather than propagate the virtues of orthodox policies and self-regulating markets, international development agencies, particularly the World Bank, now emphasize good governance and strong market-regulating institutions for putting derailed market transition back on track and achieving sustainable, equitable growth. While this revised agenda remains unquestionably liberal in its basic tenets and rather patchy in its policy content, many agree that it represents something *different* and often *more* than its predecessor. It is thus variously labeled as the "Post-Washington Consensus" (Stiglitz, 1998; 2004) or the "Augmented Washington Consensus" (Rodrik, 2006).

General commentary on the post-Washington Consensus (PWC) is plenty, but comprehensive country studies as to how it is put into practice and to what effect are few and far between. The Turkish experience is instructive in that regard. The two major episodes of intense restructuring of the Turkish economy, in the 1980s and then again in the 2000s, coincided precisely with the ascendance of the Washington Consensus and post-Washington Consensus, respectively. Furthermore, among the major middle-income countries, Turkey by a wide margin has been the largest client of international financial institutions (IFIs) in recent years, and thereby has been fully exposed to the emergent policy and institutional norms in dominant development circles. Save for its unique ties to the Western world, the country is a fairly good candidate to serve as a *crucial case* (George and Bennett, 2005: 120), the study of which could help us formulate and test hypotheses and reach contingent generalizations about the practice of the PWC.

The following analysis of the Turkish experience with the PWC compares six specific areas of reform: banking, public finance, central bank, agriculture, anti-corruption, and social security. My primary finding is that there has been a great deal of variation in reform compliance and consolidation between these policy domains. This in turn offers strong evidence for one well-known criticism of the PWC—namely, that the institutional reforms envisioned in the new agenda are so *broad* in extent and so *deep* in nature that rapid, across the board implementation is unlikely. There is room for qualification, however. I observe that although reform attempts in all six areas were marked by serious domestic political and organizational challenges, compliance and consolidation were stronger in domains already exposed to powerful and persistent international norms in favor of policy and institutional convergence, regardless of coincident advice from the IFIs. By contrast, where global norms were relatively diffuse, unstable, or not independently enforceable, reforms more easily fell victim to inherent difficulties of implementation no matter how hard they were pushed by the IFIs. Much of the analysis is devoted to presenting the evidence for this line of argument.

The wider implications of these findings are two-fold, as drawn out in the last sections of the paper. First, the fact that global norms seem to play such a crucial part in the implementation of the PWC agenda forces us to inquire what role, if any, is left for the IFIs in this process, especially in the middle income range. Here I contend that although there seems to be a structural shift in progress, it is yet early to write off IFI influence. Second, I find that the PWC agenda calls for some adjustments in research strategy. On the one hand, the type of reforms that are now on the table pulls us back toward the conventional concerns of comparative political analysis by bringing into sharp relief the significance of power, politics and historic legacies in the reform process. On the other hand, the new agenda pushes the analysis forward to focus on some less familiar themes about institutional continuity and change, which so far have figured more heavily in the comparative literature on advanced political economies. I give two examples of this: regulatory harmonization and institutional complementarity. But before I present the evidence for these points, I will take a brief look at this paradigm revision itself.

The Post-Washington Consensus: Origins and Critique

The PWC is neither a cosmetic repackaging of orthodox neoliberalism nor does it represent a radical break with it. Few argue that it should be dismissed as "old wine in a new bottle" (Krogstad, 2007), and almost no one suggests it transcends the Washington Consensus so fully that it deserves recognition as a new paradigm in its own right. In fact, we are frequently warned that the development ideas emanating from Washington today, some of which also intersect with other initiatives such as the UN's Millennium Development Goals (MDGs), constitute a rather eclectic bunch and certainly not a clear-cut consensus (Stiglitz, 2004; Rodrik, 2006). The PWC is thus variously characterized as "a synthesis of national developmentalism and the neoliberal policy agenda" (Öniş and Şenses, 2005: 273); "a change in the speed, not the direction" (Sumner, 2006: 1411); and the "rebel heir" (Krogstad, 2007: 83) of the original Washington Consensus. In that sense it is neither a paradigm shift nor stasis, but perhaps more of an ongoing paradigm broadening, revision, or reorganization.

While there is no shortage of confusion as to precisely what has been replacing the neoclassical orthodoxy in Washington, in recent years mainstream development advice seems to have diverged from the original consensus in two interrelated ways that curiously coincide with the two main themes Stiglitz (1998) stressed some ten years ago as he coined the term Post-Washington Consensus: First, there is a broadening of development goals and a de-emphasizing of 'growth without qualifiers'. Developing countries are now encouraged to pursue sustainable, equitable, participatory growth, with poverty reduction as its core objective. Second, there is an increased appreciation of the role of non-market factors in achieving these broader goals. Chief among these is an appropriate institutional environment, both at the macro and micro levels, which would presumably help markets deliver on their promises. These shifts in emphasis will be clearer as I examine the origins of the PWC.

The poor record of neoliberal reforms in the 1980s and the 1990s, particularly in sub-Saharan Africa and Latin America, was the primary factor behind the widespread disenchantment with the market orthodoxy the Washington Consensus represented (Gore, 2000; Naim, 2000; Hayami, 2003; Mahon, 2003). Median per capita income growth in the developing world for 1980-1998 was an embarrassing 0.0 percent (Easterly, 2001). The 1997 Asian Crisis, during which even a miracle of growth such as South Korea fell victim to a hasty move toward unruly financial liberalization, further undermined the credibility of unfettered neoliberalism, triggering a wave of soul-searching within the IFIs (e.g. Burki and Perry, 1998).

The failure of the Washington Consensus does not quite explain the policy content of the PWC, however. Some policy premises now associated with the PWC indeed crept into the dominant wisdom slowly throughout the 1990s (Mawdsley and Rigg, 2001; Öniş and Şenses, 2005). Crucial in that regard was a growing recognition of the central role of politics, and especially democratic politics, in reform implementation. This found its clearest expression in the literature on 'dual transitions' which also saw sporadic collaboration between World Bank staff and some influential political scientists (e.g. Haggard and Webb, 1994). This literature launched from the basic observation that in many developing and postsocialist countries economic liberalization coincided with attempts at democratic opening (Przeworski, 1991; Haggard and Kaufman, 1992; 1995; Diamond and Plattner, 1995). One important thread in that debate was rather cautious and pessimistic. Evidence from some cases of dual transition led many scholars to consider the likely 'transitional incompatibility' between the two (Armijo, Biersteker and Lowenthal, 1995). In the face of the possibility of such short-circuiting of democratization and marketization, many suggested rather heretically that market reforms could go slowly until democratic transition (if not consolidation) was complete, giving rise to the basic idea of *reform sequencing*[1], which would later become an important theme in the PWC discourse, albeit in a different sense. A second thread in the dual transitions debate was somewhat more optimistic, and focused on the intrinsic value of democracy for development. While some scholars maintained that a degree of economic development was a necessary condition for successful democratic transition,[2] the empirical link was too powerful to ignore, as Geddes (1999: 199) aptly summarized: "after 20 years of observation and analysis during the third wave of academic interest in democratization, we can be reasonably certain that a positive relationship between development and democracy exists." These ideas about the likely synergy between growth and democratic governance, particularly in the long run and once the transitional anomalies are out of the equation, resonated well with some groundbreaking work in development theory. One milestone was Friedmann's (1992) theory of empowerment,

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1 Drawing on the successful experience of Spain, for instance, Bermeo (1994: 621) argues that "much of the economic liberalization program was *not* simultaneous with the political transition. Industrial restructuring and other politically difficult parts of the adjustment program *followed* the transition to democracy and took place during and after consolidation." Linz and Stepan (1996b: 29) suggest a similarly gradualist path toward economic restructuring in postsocialist transitions: "in countries with imploded command economies, democratic polities can and must be installed and legitimized by a variety of other appeals before the possible benefits of a market economy fully materialize."

2 Huntington's (1991) descriptive analysis of the 'third wave', for example, treated the middle income range as a threshold for democratic transitions, reasserting the traditional assumptions of modernization theory. For Przeworski (1991), however, the link became visible only in the post-transition phase so that the outcomes of market reforms served as the litmus test for the endurance of new democracies. Later empirical work confirmed this basic conviction—"the chances for the survival of democracy are greater when the country is richer" (Przeworski and Limongi 1997: 177). See also Przeworski et al. (2000).

which emphasized the value of bottom-up, participatory development as an alternative to top-down reformism emblematic of market transitions. Another, though rooted in a much different analytic stance, was Sen's (1999) capability approach that placed social deliberation at the center of defining and achieving development objectives.

The rediscovery of the 'non-economic' in mainstream development thinking took a decidedly institutional character in the latter half of the 1990s, which in time also encompassed the general interest in democracy as a macro-institution. Three schools of thought were instrumental in that process. The first was the neo-Weberian, state-centric research program which arguably offered the strongest explanation for the Asian success stories by fleshing out the causal link between prudent state intervention and accelerated growth in these countries (Amsden, 1988; Wade, 1990; Evans, 1995). Although this approach had been gaining ground in comparative politics since the mid-1980s, it was the spread of statist concepts to research avenues with higher approval ratings in Washington[3] that facilitated a selective incorporation of the neo-Weberian vocabulary into official development discourse in the 1990s, as evidenced in the 1997 World Development Report (World Bank, 1997). The Asian crisis of the same year, showing how even well-established developmental states could be vulnerable to the vagaries of international markets as a result of a care-free neoliberalism, only added to its standing. A second school of thought that was instrumental in the growing concern with institutions was the new public management (NPM) approach, although its decisive contribution in arousing interest in the state and bureaucratic reform in neoliberal circles is seldom acknowledged by critiques of the Washington Consensus. Building on evidence from bureaucratic reforms in some Anglophone countries (most notably, New Zealand) since the mid-1980s, this perspective offers a "shopping basket of different elements for reformers of public administration" (Christensen and Laegrid 2001: 19). The NPM rhetoric advocates productivity and effectiveness in bureaucracy and underlines the value of 'customer service' in government practice. And unlike the neo-Weberian state-centrism (in fact, directly challenging the idea of a cumbersome Weberian bureaucracy), it welcomes the neoliberal agenda of deregulation, decentralization, privatization and contracting out of public sector in search for leaner, flatter organizations, and is particularly fond of independent regulatory agencies and alternative bureaucracies (Lane 2005: 5ff). The main tenets of this school represent a new administrative orthodoxy from which the World Bank discourse on governance reform seems to borrow liberally.[4]

But most important was the growing popularity of new institutional economics (NIE). The NIE emerged as a correction to neoclassical economic theory, particularly targeting its rationality assumptions (North, 1990). Bringing issues such as transaction costs, property rights, imperfect information and other production externalities to the attention of economic analysis, contemporary institutionalists explain cross-country variation in economic performance in terms of institutional efficiency over long periods of time.[5] The increased acceptance of this approach among economists throughout the 1990s flew directly in the face of market orthodoxy. Assuming the developmental fortunes of a country is tied to the successful implementation of a few macroeconomic

[3] See, for example, Geddes' (1994) game-theoretic work on building state capacity in Latin America.
[4] See in particular World Bank (2003b).
[5] See Alston, Eggertsson and North (1996) for a classic collection of essays in this spirit. See also Harriss, Hunter and Lewis (1995) for applications of the NIE to some developing country cases.

policy items made little sense from this perspective. Yet the real 'damage', so to speak, was done in this century through a string of NIE-inspired, path-breaking research which reinforced the emergent "institutional turn" (Evans, 2005) in dominant development wisdom. Scholars argued that neither geography (Acemoglu, Johnson, and Robinson, 2001), nor policies (Easterly and Levine, 2002), nor even international integration (Rodrik, Subramanian, and Trebbi, 2004) had a direct impact on incomes independent of institutions―"the quality of institutions trump[ed] everything else" (ibid.: 135). This explosive interest in institutions in development economics only bolstered the paralleling concern with democratic governance introduced earlier. A good indicator here was the 'good governance' agenda, which emphasized voice and accountability and the rule of law among others (Kaufmann, Kraay, and Zoido-Labatón, 1999). After all, democracy itself could be regarded as a "meta-institution" for building good institutions in other areas (Rodrik, 2000: 16ff).

The lesson that the IFIs, especially the World Bank, drew from this variety of scholarship as the Washington Consensus became progressively indefensible throughout the 1990s was simple: markets are not self-sustaining; they can facilitate high-quality growth only in the company of effective non-market arrangements. Liberalizing countries should therefore complement policy change with the pursuit of market-supporting institutions. This includes enhancements in both macro parameters such as the nature and the effectiveness of political rule, and micro ones that relate to the governance of individual sectors and policy areas. Although this basic wisdom had already been part of the development wisdom since the mid-1990s under the topic of 'second-stage reforms' (Naim, 1994), its proper articulation in official discourse as the guiding principle of the PWC is more recent. The finest examples of such effort are probably the World Development Reports of 2002 and 2003 (World Bank, 2002; 2003a). These documents represent the culmination of a change in the Bank's rhetoric by bringing together a diverse set of themes such as good governance, poverty alleviation, market regulation, participation, competitiveness, sustainability and social capital, all under the overarching theme of institutional transformation. The scope of such transformation, as Rodrik's (2006) list of ten 'Augmented' Washington Consensus items demonstrates, is vast.[6]

With its emphasis on the political-institutional context of development and its apparent concern for pro-poor growth, the PWC is considered an improvement over the Washington Consensus by many. A major criticism, however, is that, much like its predecessor, the PWC too is largely oblivious to the global power relations that put developing countries at a structural disadvantage (Öniş and Şenses, 2005: 278ff). It encourages the South to undertake yet another round of tough reforms while proposing little to no changes in the international financial and trade architecture. Rather, the guiding principle appears to be the recasting of domestic institutional arrangements (as opposed to domestic policies as was the case under the Washington Consensus) in line with emerging international norms. For instance the Poverty Reduction Strategy Papers (PRSPs), perhaps the one hallmark of the practice of the PWC in low-income countries,

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[6] These include, in addition to the 10 original Washington Consensus items: (1) Corporate governance; (2) Anti-corruption; (3) Flexible labor markets; (4) WTO agreements; (5) Financial codes and standards; (6) 'Prudent' capital account-opening; (7) Non-intermediate exchange-rate regimes; (8) Independent central banks/inflation targeting; (9) Social safety nets; and (10) Targeted poverty reduction (Rodrik, 2006: 978).

have been criticized for augmenting "the role of the state and of global governance in setting up…institutional frameworks for disciplining the local" (Craig and Porter, 2003: 66). Whether such disciplined inclusion through institutional reform could make a qualitative difference in the livelihoods of the global poor is uncertain.

But even before the potential outcomes of the project, there is the question of *feasibility* of the PWC reforms in general. This in fact is a major issue, for two main reasons. On the one hand is the problem of scope, or what might be termed the *breadth* problem. Translated into policy advice, the acquisition of 'good institutions' as advocated by the PWC requires substantive reforms in a vast number of sectors and policy areas, and involves building new regulatory agencies, refurbishing bureaucracies and introducing a multiplicity of novel arrangements. This snowballing of the institutional reform agenda has drawn criticism even from former advocates of the project. Rodrik, for example, argues that "the obsession with comprehensive institutional reform leads to a policy agenda that is hopelessly ambitious and virtually impossible to fulfill" (2006: 980). Grindle (2004) voices a similar concern, suggesting that developing countries and the IFIs might be better off setting their sights on "good *enough* governance" rather than the gargantuan agenda of good governance.

A second, and perhaps more crucial, dimension of the feasibility problem concerns not the extent but the nature of institutional reforms, which in turn might be termed the *depth* problem. Although the PWC openly repudiates the one-size-fits-all approach characteristic of its predecessor, and despite the World Bank emphasis on 'complementing' what already exists on the ground (2002: 4), strategies of institution-building and reform usually involve the dismantling of well-entrenched domestic arrangements and transplantation of institutional blueprints. As Peter Evans points out, such an effort "rests on…the general premise that institutional effectiveness does not depend on fit with the local sociocultural environment…and that idealized versions of Anglo-American institutions are optimal developmental instruments" (2004: 33). He terms this strategy *institutional monocropping*. Such belief in the transferability of institutions across different social contexts overlooks the basic question of *endogeneity*. In other words we have no way of knowing "whether one can stick any institutions into some particular conditions and expect that they would function in the same way as they have functioned elsewhere" (Przeworski, 2004: 528). Transferability thus remains an unknown quantity, and renders large scale projects of institutional engineering an ultimately experimental enterprise.

This wealth of theoretic commentary on the PWC is not matched by a corresponding analytic interest in how it is put into practice, however. How do countries go about implementing these reforms? How serious is the problem of feasibility? Which arrangements are more 'reformable'? What are the implications for comparative analysis? I try to address these questions by reference to the Turkish experience with the PWC.

The PWC in Practice: The Turkish Experience

Many of the institutional reforms advocated by the IFIs today entail strong convergence with evolving global norms in distinct sectors and policy areas, for which emerging market economies are very good candidates. Yet following the rapid recoveries from the Asian crisis and its contagion in Brazil and Russia, and given the strong growth momentum in the world economy in the 2000s, the IFI leverage in middle-income countries dwindled, making it difficult to assess the implementation of the full range of PWC reforms. Turkey in that sense is an exception. The country signed four consecutive stand-by agreements with the International Monetary Fund (IMF) since 2000, and has remained one of top three largest borrowers of the World Bank, trailing China and India, over the past few years. It thus offers a particularly good place to investigate how the new agenda has been put into practice.

Turkey indeed has a long history with the IFIs. First generation reforms in Turkey were carried out in the 1980s by a group of liberal-minded, technocratic elites, led by Turgut Özal and his Motherland Party (ANAP). Under semi-authoritarian rule that followed the 1980 coup, and in close collaboration with the IMF and the World Bank, the reformers of this early era decidedly broke with the country's statist, import substituting development strategy by restructuring domestic finances, gradually liberalizing the trade and investment regimes, and promoting manufacturing exports. Meanwhile, fiscal considerations on the one hand, and attempts at constraining domestic demand at a time of export-led integration with the international economy, on the other, led to a severe depression of popular incomes, as evidenced in sharply declining real wages and agricultural supports. These rather rudimentary efforts generated relatively fast growth up until the second half of the 1980s, but by the end of the decade they proved not only politically but also economically unsustainable (Celasun and Rodrik, 1989; Arıcanlı and Rodrik, 1990; Rodrik, 1991).

Two important developments of the late 1980s put Turkey's market transition on a highly problematic path. The first was the return to competitive politics in 1987, effectively ending the era of technocratic exclusivism. The second was neoliberal reformers' decision in 1989 to try to weather economic stagnation by opening up the capital account and integrating with international financial markets. The combination of these two proved deadly. Under intensified political competition, the pent up popular grievances of the previous era of top-down reformism quickly translated into strong populist pressures to reconsider neoliberal austerity; at the same time, the unruly financial integration provided the state with a perilously flexible environment for managing fiscal deficits, creating soft budget constraints within which these redistributive demands could be more freely addressed (Celasun and Arslan, 2001; Alper and Öniş, 2003). This in turn set the pattern for the 1990s. The decade was characterized by a string of weak coalition governments, typically representing an alliance of half-hearted neoliberals and old school politicians, with little interest in either regulatory caution in the face of growing international financial exposure or fiscal prudence despite soaring public debt. In the process, reforms stalled and economic governance slid into paralysis under chronic high inflation and boom-and-bust cycles of foreign capital-led growth.

The unraveling of this unsustainable pattern was slower than many would have expected. Only in December 1999 did Turkey's rulers acknowledge the extent of the problem and agree rather unwillingly to an exchange-rate based stabilization program with the IMF. Scholars contest as to whether this program was too little, too late, or itself exacerbated the weaknesses of the Turkish economy due to flaws in design and implementation.[7] Nevertheless the outcome was the same. In early 2001 Turkey was struck by the worst economic meltdown in its modern history, which recorded a 9.4 per

[7] For a rich collection of essays on the crisis of the Turkish economy, see Öniş and Rubin (2003).

cent decline in real GDP and a 30 per cent drop in per capita income in dollar terms. In response the three-party coalition government invited a former World Bank vice-president, Kemal Derviş, to supervise a sweeping IFI-led reform program. Accorded with extraordinary ministerial powers, Derviş emphasized a technocratic approach reminiscent of the early 1980s (Cizre and Yeldan, 2005: 393-4). The long list of institutional reforms unveiled in this program closely mirrored the emergent PWC agenda, which had already made strong inroads into the Turkish policy scene in the preceding years.

This intense, crisis-induced technocratic episode was short-lived, though. The November 2002 elections brought into power a single-party majority government for the first time in over a decade. The ruling Justice and Development Party (AKP) rode on a broad popular-conservative platform and its ranks abounded in reform skeptics. Still, given continued fragilities, the reformist momentum continued under consecutive agreements with the IFIs, although compliance varied across different areas of reform—as it in fact had in a more limited way under Derviş's incumbency as well. Explaining this variation is the primary task of the analysis below.

1. *Central Bank Reform*

Let us begin with organizationally the simplest of all PWC reforms, that is, the move toward independent central banking. Even though the debate over central bank independence (CBI) from executive authority has been around for a long time, its spread in both advanced and developing countries as the primary institutional norm in monetary policymaking is a fact mostly of the 1990s. The neoclassical assumption here is that ensuring the autonomy of monetary policy from political and direct fiscal interference facilitates central banks' ability to perform what should be their basic function, that is, maintaining price stability—in most cases, fighting inflation. This in turn is expected to have a positive overall effect on economic performance.

Explanations for the explosive diffusion of this norm as a universal 'best practice' over the past 20 years vary. Many observers cite reasons that go beyond the supposed merits of the doctrine. Forder (2005: 858), for instance, contends that the scientific appeal of this idea does not quite add up to its widespread acceptance among economists; rather, it is a favourite more so "because it seems to support the status as scientists of those who advance it." This, however, cannot explain on its own why so many countries have over the past 20 years made concerted efforts to isolate monetary policy from political power. Perhaps the most credible explanation here is the impact of increased immersion in international markets. In a relatively early cross-country study, Maxfield (1997: 4) argued that "politicians use central bank independence to try to signal their nation's creditworthiness to potential investors." In a more recent examination of over 70 cases of central bank independence around the world, Polillo and Guillén (2005) arrive at a parallel conclusion. They find that the spread of central bank independence appears largely to be the result of 'mimetic' or 'isomorphic' pressures to reorganize state structures in line with accepted environmental norms in the process of greater exposure to international investment, trade and multilateral lending.

As in some other areas of reform, Turkey's move toward central bank independence began in the second half of the 1990s, but was completed only in the context of the technocratic reform agenda ushered in by the 2001 crisis. Up until the mid-

1990s, Turkey offered a textbook case of mostly unproductive entanglement of monetary and fiscal policy, exhibited in the relative power of the Turkish Treasury, an organization ever open to political influence, over the Central Bank of the Republic of Turkey (CBRT). In the fiscally conservative environment of the early 1980s this did not cause much of a trouble. Fiscal expansion beginning from the late 1980s, however, exposed the inherently problematic nature of this relationship whereby cash advances from the Bank as well as political interference with interest rates that impacted the market for government securities became the preferred method of financing deficit spending.

The 1994 shock, which saw a massive capital outflow and jumbo interest rates compounding the debt burden, made clear the unsustainability of this pattern. An important response to this shock was a 1995 legislation that limited short term CBRT advances to the Treasury, from 15 percent of the total budget progressively to 3 percent of total increase in fiscal allowances by 1998. While this was an important step in central bank independence, it certainly did not solve the problem as collusion between the Treasury, Central Bank and some large public banks in the financing of fiscal deficits continued, primarily in the marketing of government securities.

The top-down reformism of the post-2001 period was crucial in that regard. In April 2001, Law No. 4651 amended the original Central Bank Law No. 1211, and established the full independence of the Bank (Official Gazette, 25 April 2001). The Bank's primary objective was now redefined as the provision and maintenance of price stability, for which it had the sole authority over the monetary policy and the exchange rate regime. The 4th article of the act stipulated that "[t]he Bank shall enjoy *absolute autonomy* in exercising the powers and carrying out the duties granted by this Law" (emphasis added). To strengthen this principle, the new law also set up a Monetary Policy Committee within which the Treasury had no voting rights. Furthermore, the law "repealed" the previous legislation on advances to the Treasury and any Bank credits to public institutions (articles 50 and 51). In effect, the law severed the organizational linkages between monetary decision-making and the regime of public finance.

The Bank's newfound independence would be tested on three separate occasions, none of which succeeded in a backpedaling from the principle. First, Treasury officials were quick to realize that the Bank's autonomy had important negative implications for debt management. The main criticism there was that lack of coordination between these two institutions, specifically in the area of short-term interest rates, led to suboptimal Treasury decisions in the timing and amount of public tenders, especially given the Bank was such a massive player in secondary markets for government papers through its open market operations.[8] Such within-state discomfort would fall on deaf ears. Second, the sharp and continuous overvaluation of the Turkish lira particularly after 2003 led to a widespread disenchantment with the floating exchange rate regime among exporters, generating calls for CBRT intervention to ensure price competitiveness in international markets. On the upside, however, the overvalued currency helped ameliorate the foreign debt problem of both the public and the private sector and facilitated the domestic demand-driven growth dynamic of the Turkish economy by making consumer imports cheaper. And the expensive lira was never proven to damage export performance, partly because most manufacturing exports were also heavily dependent on the import of intermediate goods; if anything, Turkish exports were exceptionally strong in the 2004-

[8] Interview, Deputy General Director (anonymous), the Undersecretariat of Treasury, 24 August 2004.

2007 period. As a result, proponents of currency devaluation failed to harness sufficient social and policy support to pressure the CBRT to relax its monetary stance. Finally, the Bank's independence was tested one last time in 2006 when, upon the retirement of the Bank's much-respected Governor, the government attempted to appoint to the post an outside candidate known to have close ties to the ruling AKP. Faced with a presidential veto followed by mounting criticism from both domestic business circles and the IMF, the government did not insist further and picked instead an insider figure for the job. One may reasonably argue that in none of these instances political stakes were high enough for the government to attempt to undermine the Bank's autonomy and thereby endanger the hard-found stability at home and prestige abroad. But together these events constitute a pattern that attests to a degree of reform resilience and quick consolidation of the PWC agenda in this one area.

2. Fiscal Reform

While much of Turkey's fiscal crisis was linked to the appetite of populist politicians to overspend, this initiative was greatly assisted by the disorganization in public accounts, the unplanned management of the public debt, and the ineffectiveness of control mechanisms. Postcrisis reforms tackled this problem in two ways. First, as a global effort to reintroduce fiscal austerity and relieve the pressure on public borrowing, high levels of 'primary surplus' (fiscal balance excluding interest payments) was made a performance criterion for the successive IMF stand-by agreements. And second, reforms also emphasized the rationalization of public spending and the reorganization of debt financing through legal-institutional changes. The language of these reforms quite openly reflected the new public management (NPM) approach introduced earlier, with constant reference to principles of transparency, accountability and effectiveness, as evident in public financial management in both loan agreements with the IMF and the World Bank and independent government documents. I will focus on this latter type of reforms.

The main source of disorganization in public spending was the ancient Law No. 1050 of General Accounts, dating back to 1927 with several modifications since then. This framework was too awkward to meet the flexible needs of a liberalized policy environment. For one thing, the preferred fiscal coding, dubbed as 'program-based budgeting', created severe problems of classification and planning over time, obscuring the relationship between resources and spending. The law was also notorious for its strict though cumbersome mechanisms of control over the allocation of budgetary funds.[9]

In order to eschew these complexities, public organizations from the mid-1980s on sought means to bypass 'fiscal spending' or fiscal control altogether, and adopted non-budgetary means of cash transfer and public spending. This created a secondary and at times hidden public budget that could be traced at three levels. At the bottom, almost all ministries and state organizations created special allowance mechanisms, including 'extra-budgetary funds' to meet various intra-organizational needs (ranging from bonus payments for employees to small investment projects). In time, these funds evolved into a parallel public budget circumventing the routine channels of public resource mobilization and allocation. The sources of revenue for these funds were various, and so were their

[9] Interview at the Ministry of Finance, 3 August 2004.

uses.[10] The largest EBFs were those mandated with mass housing, defense industry, infrastructure investment and poor relief. At the mid-range, public banks (mainly, the Bank of Agriculture and the People's Bank) were periodically ordered to allocate cheap credit to farmers and small businessmen without much fiscal consideration. This common practice would create massive 'duty losses' on the balance sheets of these banks, financed through internal and external borrowing at high interest rates. At the very top, the Treasury eventually had to foot the bill, mostly by excessive and unplanned borrowing as well as by directly tapping into the resources of the Central Bank as mentioned earlier. Consequently, by the late 1990s, Turkey's public accounts became an increasingly nebulous realm, an entangled web that did not permit international comparisons and meaningful analysis, let alone strategic planning.

As in central bank independence, attempts at fiscal restructuring too preceded the 2001 crisis. In 1999, during the preparation of the Eighth Five-Year Development Plan, a special commission convened to identify the problems of Turkey's fiscal regime and to design a program for reorganization (SPO 2000). The commission brought together top bureaucrats from the Treasury, the Ministry of Finance, the Central Bank and the Court of Accounts with academics as well as representatives from some civil society organizations. The findings and suggestions of the commission report served as the basis for a subsequent project carried out in conjunction with the World Bank in 2000-2001 (World Bank 2001a). Thus, by the time crisis hit, a comprehensive road map for modernizing Turkey's public accounts in line with international standards was already on the table. The plan proposed replacing the age old principle of 'program-based' budgeting with a 'performance-based' design, introducing a new and unified system of codification for all public accounts, and strengthening external auditing mechanisms.[11]

Not all fiscal problems resulted from poor bookkeeping or poor surveillance, though. Restoring fiscal discipline also entailed a new approach to managing fiscal deficits and existing debt. In fact, these latter concerns would be addressed earlier in the reform process, for they held urgency for regaining investor confidence in the aftermath of the crisis and were somewhat easier to achieve administratively. This in turn entailed a two-stage strategy of fiscal reform.

The first stage was the Treasury-centered reorganization of debt management, the hallmark of which was the new the Law on the Regulation of Public Finance and Debt Management (No. 4749), enacted in March 2002. This law was revolutionary in its redefinition of the fundamentals of public borrowing as well as debt financing.[12] First, all state and quasi-state organizations were now subjected to a single, unifying framework of borrowing, bringing all public debt into the budget. Second, the Law set strict limits to total borrowing, based on the projected incomes and expenditures in the annual Budget Law. Third, it re-regulated the operating principles and restricted the scope of Treasury-guaranteed borrowing by any public organization. Fourth, it set the principles for cash, debt and risk management and established a risk management unit under the General

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10 Celasun and Rodrik (1989: 733) list five main financial sources for EBFs: "(a) various earmarked taxes and surcharges on foreign trade, bank credits and other transactions, (b) income-sharing certificates of public utilities and enterprises, (c) interest income on the funds' financial assets, (d) foreign credits, and (e) donations and transfers from other funds."
11 See Emil and Yılmaz (2003) and Kızıltaş (2001).
12 Official Gazette, 28 March 2002.

Directorate of Public Finance. The law also made it mandatory for the Treasury to publish comprehensive quarterly reports on debt management. This shaping up of the debt regime was complemented by the dismantling of the EBFs, which had already been under way since 1999 but picked up steam especially in 2001-2002.

The second stage was the organizationally demanding reform of the public expenditure regime, which entailed a comprehensive restructuring within the Ministry of Finance. At its center was the Public Financial Management and Control Law (No. 5018), replacing the age-old Law No. 1050 of General Accounts.[13] Although enacted in late 2003, the law went into effect only by 2006, and after some revision. The new framework harmonized Turkey's public accounts with international standards, adopting the GFS (Government Finance Statistics) system and introducing a new codification. In line with the principle of performance-based budgeting proposed in 1999, it emphasized strategic management, medium-term planning, and both pre- and post-spending control mechanisms based on functional performance. It also placed a larger legal responsibility on fiscal authorities at all levels. Complementing this second stage was the reorganization of the extractive arm of the Turkish state, which involved the establishment in 2006 of a semiautonomous Revenue Administration within the Ministry, replacing a highly politicized general directorate notorious for its inefficiency.

These twin reforms, one reorganizing debt management and the other almost the entire regime of public finance, were strongly supported by the IFIs. Particularly important has been the technical guidance and financial assistance of the World Bank in the context of three consecutive Programmatic Financial and Public Sector Adjustment Loans in 2001, 2002 and 2004, followed by a Programmatic Public Sector Development Policy Loan in 2006. While these loans, which totaled about US$4 billion, had conditionalities regarding banking sector restructuring and, lately, social security as well, they gave special priority to fiscal reform.

But as in the previous case, the reform process was not without its contenders. The main reason for the two-year delay in the implementation of the public finance law was strong opposition both in the Parliament and from within the traditionalist bureaucracy. The bill was attacked for bringing principles of IMF-inspired 'corporate governance' into the realm of state finances and sacrificing too much of the authority of the 'centre' in favor of local and external elements.[14] The new framework came under heavy criticism from lower level bureaucrats as well, especially for passing too much responsibility upon them without offering comparable means of legal and professional protection.[15] A second challenge came directly from government. Strong economic recovery in the 2002-2004 period triggered powerful pressures from within the AKP to circumvent fiscal austerity and increase spending by relaxing the primary surplus. In the spring of 2005, a series of bills were submitted to the Parliament to this end: one granting amnesty to outstanding social security payments by small businessmen and the self-employed, another introducing a generous scheme of industrial support to underdeveloped regions, and so on. Upon heated public debate and deliberations with the IMF, most of these bills were shelved. About the only major exception to tight fiscal stance was in the area of agricultural subsidies, as will be examined later. Overall, the

[13] Official Gazette, 24 December 2003. See also BUMKO (2004).
[14] See, for example, Oyan (2003) and Dikmen (2003).
[15] See Karagöz (2003).

normative content of the institutional reform agenda in public finance proved to be too thick to be easily perforated by old-style bureaucratic or populist impulses.

3. *Banking Reform*

Finance, and in particular banking, is one area in which global institutional norms have evolved very strongly over the past two decades. This is also well-reflected in the PWC agenda as both the World Bank and IMF now insist on prudential regulation and tight supervision of the financial sector, primarily in response to the string of financial crises in the semi-periphery from 1994 to 2001, which started with Mexico and Turkey in 1994, reached its peak in East Asia, Russia and Brazil in 1997-98, and seems to have ended with the Argentine and Turkish meltdowns in 2001.

The 'reregulatory' impulse in banking can be traced to the efforts since the mid-1980s among policymakers in advanced industrial countries to coordinate national policies in the face of the explosive growth of international capital markets. The epitome of this is the capital adequacy standards as promoted by the Basle Committee on Banking Supervision (BCBS) of the Bank for International Settlements (BIS). The original Basle Accord of 1988, originated from negotiations among the G-10 countries, suggested that international banks set aside a minimum of 8 percent of their capital primarily as a safeguard against growing credit risks in highly intertwined global capital markets. Later, in 1995, a market risk component was added, and finally the Basel II Accord of 2004 introduced an operational risk component. Apart from capital adequacy principles, the BIS also actively promotes supervisory standards and disclosure requirements—the second and third pillars of the 2004 accord (Seabrooke, 2006; Baker, 2002, chs. 4-5).

These norms have been firmly embraced by the IFIs. For instance, through joint financial sector assessment programs, the IMF and the World Bank provide governments with a "confidential evaluation of the country's prudential financial regulation and supervision, including the Basle core principles for supervision" (Hanson, 2005: 52). The reregulatory agenda is also the least problematic of all institutional reform projects the IFIs could promote without being criticized for attempting to impose institutional blueprints or downplaying problems of 'endogeneity'. Finance is one area in which the World Bank does not have to tip-toe around the 'best practice' vs. 'good fit' rhetoric (World Bank, 2003a: 18ff) or praise the virtues of designing new institutions in ways that "complement what exists" (World Bank, 2002: 10ff). The BIS standards are not the very least about good fit but definitely about best practice and across the board harmonization. And in finance there is little point in trying to complement pre-existing financial structures, since these are often precisely the sort of institutional practices countries are encouraged to get rid of in the first place (e.g. insider transactions and the politicized nature of corporate lending in Asian financial systems, which many observers believe to have created a deep moral hazard inviting the 1997 crisis; see Haggard, 2000: 24ff). Furthermore, promoting capital adequacy requirements, harmonized charts of accounts or compulsory disclosure principles is predominantly a 'state vs. bankers' affair distanced from 'the people', so there is no real-world grassroots approach to it.

In the 1990s, the extreme profitability of "banking on the government" (Akçay, 2003: 169) and the laxity of entry requirements provoked a proliferation of actors within the fast-internationalizing Turkish banking system. Yet the public capacity to monitor and supervise did not increase proportionately. Such tasks were divided between tiny departments within the Treasury and the Central Bank, and although there were some attempts at international harmonization, the legal framework was far from grasping the complexities involved in the rapid exposure of the sector. In addition, Turkish authorities also introduced a 'moral hazard' into the system by endorsing a full government guarantee on all deposit. Despite the worsening macroeconomic balances in the latter half of the decade, most private banks aggressively chose to operate on huge open positions in foreign currency so as to continue financing the fiscal debt. In doing so, they were exposed to maturity mismatches and severe exchange rate risk (Özatay and Sak 2003).

The strains of the sector became evident when several small banks had to be taken over by the Savings and Deposit Insurance Fund (TMSF) in 1999. The stabilization program of the same year acknowledged these strains and adopted a stringent approach to tackle them. In order to discipline the sector, the Banking Law No. 4389 established the Banking Regulation and Supervision Agency (BRSA), transferring the relevant personnel of the Central Bank and the Treasury to the new organization. The agency became operational in August 2000. Its mission was the strict regulation, efficient monitoring and autonomous control of the banking system.

Views on the relationship between the meltdown of the Turkish economy and the regulation of the banking sector vary. Most observers maintain that the crisis was ordained by the structural weaknesses of the exchange-rate based stabilization program.[16] Others argue that had it not been for the extreme vulnerability of the unregulated banking sector, none of these weaknesses would have sufficed to precipitate a crisis of such proportions.[17] Still others seek the culprit in not too little and too late, but too much and too sudden regulation, and claim that the BRSA's imposition of regulatory measures from its early days caused "profound anxiety in the sector" (Tunç, 2003: 45), triggering the first act of capital flight in November 2000.

Postcrisis reforms in banking proceeded in three steps. The first task was 'damage control' through extensive restructuring, for which the Agency was given the single-handed responsibility by the spring of 2001. The Agency performed a quick system-wide auditing process and identified the fundamental risk elements as well as 'problematic actors'. To act on its findings, it negotiated a debt-swap with the Treasury in June 2001, which brought down the open positions of the sector to a minimum. This was followed by a series of takeovers. Also, two of the three public banks were merged and recapitalized via Treasury bills. Second, the Agency set new capital adequacy ratios and asked all banks to increase their paid-up capital and legal reserves within the year 2002. For those banks that maintained positive capital adequacy ratios but could not meet the new legal limit on their own, the "Bank Capital Strengthening Program" provided capital injections from public resources. Finally, the Agency also pushed forward a chain of new regulations concerning banks' balance sheets and internal accounting and financial procedures. These measures aimed at institutionalizing maximum transparency within the sector. The mutual obligations of the Agency and the actors in the system were also detailed out, enabling a continuous flow of information to bolster the quality of monitoring (BRSA 2001a; 2001b; 2001c; 2002; 2003). The culmination of these later efforts toward regulatory harmonization was the new Banking Law.

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[16] Akyüz and Boratav (2003); Ertuğrul and Yeldan (2003).
[17] Özatay and Sak (2003).

This new law unexpectedly turned into a source of intense political struggle, although many of its stipulations had already been in place in the form of executive decrees and Agency regulations. Of particular concern for the banking community were the laws strict regulations regarding shareholder responsibility. The law extended the time clause and the scope of criminal responsibility in banks' operations, and greatly increased fines and penalties for all fraud and misconduct. The Turkish Banks' Association (TBB) strongly opposed the bill on grounds that it put the entire sector under the yoke of some 'extraordinary' measures devised under crisis circumstances. But despite months of lobbying to soften up the bill, the Association could wield little influence as it failed to muster any public support from industrial and commercial interests.[18] A few articles were slightly revised, yet the core of the bill was retained as it passed in the Parliament in 2005.

Two factors appear to have been instrumental in the government ability to consolidate the institutional reregulation of the sector along global norms. The first was the growing share of international banks in the system through a series of foreign takeovers and partnership in the post-2003 period. The sector in the 1990s was highly internationalized in its operations, but ownership had remained overwhelmingly in domestic hands. Strong economic recovery after 2002 witnessed a growing foreign interest in the system, as seen in the entry of Dutch, British, Arab, Greek and American financial groups, rendering convergence on international regulatory norms not only more acceptable but vital. A second factor was the government strategy to exploit intra-sectoral cleavages. Although there was a high degree of interpenetration between Turkey's financial and industrial capital, many of the banks that were punished by the Agency for their operational risks and speculative activities were associated with smaller industrial groups. The country's two largest conglomerates, Koç and Sabanci, were not implicated in the banking crisis. In quelling the opposition to sectoral restructuring and establishing autonomy vis-à-vis financial interests, Turkey's ambitious reformers relied on the complacency of these largest conglomerates. About the only problem case was the Yapı Kredi Bank, which had been one of the top five commercial banks in the system and was associated with the country's third largest group, Çukurova. While playing hardball with smaller groups and banks,[19] reformers left the problematic Yapı Kredi outside the initial string of takeovers. Once the battle over the new Banking Law was won, however, the BRSA started pressuring Yapı Kredi. A few months later, the Koç Group, which had fervently supported the reregulatory reform agenda, purchased the bank, becoming a serious competitor in retail banking to its historical rival, Sabancı.

4. *Agricultural Subsidy Reform*

It appears that, despite a variety of organizational and especially political challenges, Turkey's postcrisis rulers succeeded in consolidating a comprehensive set of PWC-inspired institutional reforms in several areas including central bank independence,

[18] Radikal (daily), 27 May 2005.

[19] The most dramatic aspect of the restructuring process was the public trials of ex-owners and executives of the banks taken over by the government in 2002-3. Deemed 'untouchable' months before, bankers were now jailed on charges of siphoning out their own banks through phony credit deals, most commonly with sister firms of these banks in the real sector.

the reorganization of the public finance regime, and the reregulation of the banking sector. In some other areas of reform, however, evidence points in the opposite direction. Chief among these is the case of agricultural subsidy reform.

Turkish agriculture has been historically characterized by very high levels of state intervention. In the postwar decades and particularly under import substitution, an elephantine regime of agricultural supports emerged. The support regime relied on several state and parastate agencies, including an extensive network of producer and credit cooperatives. And given the political salience of Turkey's vast smallholder peasantry in an open polity, it was set to provide a populist redistribution of resources toward the countryside through state procurement schemes and generous input as well as credit subsidies (Ergüder, 1980; Kasnakoğlu, 1986; Kip, 1988). An important aspect of the system, however, was that it also gave the central authority broad control over agricultural prices. This in turn would prove crucial in the neoliberal 1980s. Freed from the yoke of democratic contest, Turkey's first generation reformers found it more opportune not to dismantle this antiquated regime but put it in the service of depressing agricultural prices in their quest for demand management. The outcome was a severe decline in the fortunes of the peasantry. Domestic terms of trade for agriculture fell by 53 per cent from 1977 to 1986 (Boratav, 1990: 212). Producer Subsidy Equivalent (PSE), measuring monetary transfers to farmers, plunged ten times, from 28 per cent of the total agricultural value added for 1979 to a meager average of 2.8 per cent for the five-year period between 1980 and 1984 (Kasnakoğlu, 1995: 251).

Yet the continued availability of these schemes would prove problematic in the 1990s. Under intense distributive pressures, and given increased opportunities for fiscal expansion in part due to financial internationalization, the populist politicians of that decade restored the support regime back to its original function of income transfer to the countryside. Producer Support Estimate (PSE), which stood at US$2.7 billion in 1988, climbed to US$8.5 billion in 1991 and recorded an average of US$7.1 billion throughout the decade (OECD, 2006). Much of this increase resulted from price supports and credit expansion. Between 1980 and 1989, for instance, concessional loans from the Bank of Agriculture (ZB) had averaged US$230 million per year; this figure would shoot up to an annual average of US$1.6 billion between 1990 and 1999 (Yeni and Dölekoğlu, 2003: 45). Consequently, by the end of the 1990s, Turkey's antiquated agricultural subsidy regime was still largely in place, accounting for an important part of the fiscal problem.

Conforming to the general pattern, reform attempts in agriculture too preceded the 2001 crisis. The IMF-supported stabilization program of 1999 gave special priority to the dismantling of the subsidy schemes. The Turkish Treasury took the lead in devising a master plan to replace the existing support framework with a new, fiscally sustainable regime. In this undertaking it received generous technical, and eventually financial, assistance from the World Bank. The Agricultural Reform Implementation Project (ARIP) of the Bank, announced in June 2000, was designed to help the government meet its goal of "dramatically reducing artificial incentives and government subsidies" (World Bank, 2001b: 4). The Bank reported that "the reforms to be implemented are necessary for fiscal stabilization" (ibid.), and endorsed the project with a US$600 million loan.

ARIP had four components. First, in the place of support purchases and input subsidies that were being phased out, and primarily as a transitory social safety net, a *Direct Income Support (DIS)* regime was instituted. DIS payments would be allocated to producers on a per hectare basis, and were introduced as "decoupled" from the crop or the yield. Second, in order to combat overproduction in some crops (e.g. hazelnuts and tobacco) the project endorsed one-time payments to encourage *farmers' transition* to alternative crops. Among the crops promoted were corn, oilseeds and feedcrops. Third, ARIP proposed a sweeping *organizational reform* of the agrobureaucracy. This included the privatization of the remaining agricultural state enterprises and the restructuring of regional sales cooperatives. Finally, the project had a *support services* component, which also involved a public information campaign to garner social support for reform.

This radical reform initiative was the epitome of institutional *monocropping*. It attempted to transplant a system of direct payments as a temporary substitute for the entire range of classic support mechanisms. It pressed for replacing the cultivation of regionally well-established crops with alien ones on the basis of pure market rationality. And it attacked the very foundation of rural corporatism by proposing to sever the historic ties between the political center and the network of farmers' organizations.

While implementation started in 2000, the reformist tide that followed the 2001 crisis provided a more opportune environment for top-down transplantation. From 2000 to 2002, the DIS regime gained regularity. Input and credit subsidies were slashed. Regulatory boards for tobacco and sugar were formed. In order to compensate for marketing problems that could arise from the withdrawal of state procurement, grain exchange boards were emphasized. Agricultural enterprises were enlisted for privatization, and cooperatives received capital injections against past losses.

From reformers' perspective initial results were promising. "By the end of 2002", an interim World Bank report announced, "the reform program reduced the fiscal outlays on agricultural subsidies by about US $5.5 billion", representing a savings of "over 2.7 percent of GDP" (World Bank, 2004: x). The authors of the report argued that the 13 percent decline in real agricultural prices (22 percent in comparison to non-agricultural prices) should also be interpreted as a major benefit for consumers. And despite a sharp rise in input prices and credit costs, the DIS payments compensated for almost half the income loss incurred by farmers (Ibid.: xii). According to the study, Producer Support Estimate (PSE) declined from about 25 per cent in 1999 to 10 per cent in 2001—revised OECD data would set this figure further below, at a mere 3 percent (OECD, 2006).

But even at its early stages of inception, top-down reform ran into difficulties. There were several problems of design and implementation.[20] But more crucially, agricultural reform encountered intense political and bureaucratic resistance. From the day of its conception, ARIP never received tangible civic or political support, and was labeled as a predominantly technocratic initiative imposed from abroad. Farmers' organizations had difficulty in adjusting to the new legal framework. Professional

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[20] The DIS regime lacked the necessary control mechanisms and thus was open to abuse. Most large landowners quickly devised ways to cheat the system, while some small farmers could not benefit from payments. Also, some aspects of the alternative crop project were a textbook case of modernist failure with its disregard of the basic intertwinement of social structures and production patterns. For instance, reforms promoted a switch from hazelnut farming to corn and soy beans in the Black Sea region. What the designers of the project did not take into account was that most hazelnut farmers were in fact urban dwellers in nearby towns and cities, visiting their land only a few times a year, mainly for inspection, maintenance and harvesting purposes. The production cycles of the promoted crops, however, required that the farmer live on land. Farmers, needless to say, were not thrilled and did not follow up (Interview, General Director, Anonymous, the Ministry of Agriculture and Rural Affairs, 20 August 2004).

associations such as agricultural chambers were at the forefront of public criticism (TZOB, 2003; Günaydın, 2002). There was "sub-rosa resistance" (Allina-Pisano, 2004) from within the state as well, revealing just how deep were the mental fissures between the core organizations of economic governance and the agricultural machine operating in the background.[21] The project was a major source of bureaucratic infighting.

Despite these hurdles agricultural reform pushed forward without major setbacks in its early years. But the November 2002 elections put an end to this prelude. The fast pace of economic recovery and the nearing local elections quickly translated into strong pressures upon the AKP to reconsider the support policy. The government's response was to gradually dilute the reform process without putting the fiscal balance too much at risk. Good yield in grains in 2003 provided a good excuse for sizeable state procurement. Excessive procurement was routinized in 2004. The wheat stocks of the Turkish Grain Board (TMO) were to reach three million tons in two years.[22] The backpedaling from the founding principles of the subsidy reform accelerated in 2005. The government announced fertilizer and diesel fuel subsidies. A debt write-off scheme took effect against interest accumulated on default credits and unpaid electricity. An additional US$ 2 billion was made available to farmers in the form of cheap credit. Cotton premiums were doubled. And for the first time, premium payments on wheat were introduced, in addition to both existing support purchases and the now regularized DIS payments. After a few years of experimentation, old support instruments, albeit in bits and pieces, were back in the village, operating side by side with a novel institutional framework.

Finally, the Agricultural Law of 2006 sealed the transition to a hybrid support regime (Official Gazette, 2006). The law represented a compromise between old and new support instruments and introduced a framework flexible enough to accommodate a variety of policy needs. On the one hand it cast the DIS system into law by making it the primary support instrument. It also set a low minimum support ratio for starters—no less than one percent of the GNP. On the other hand it adopted a much more diversified support framework, including the European-style deficiency and compensatory payments as well as livestock, insurance and rural development supports. It also officially brought back older subsidy instruments under a separate article on "other support payments", which as stipulated could be used toward any input and marketing supports.[23] In essence, the law symbolizes the unwillingness of the government to limit the scope of its policy repertoire by over-commitment to any one paradigm of support.

This 'hybridization' of the support regime brings into sharper relief the dynamic role of global policy and institutional norms and their enforcement in the implementation of the PWC reforms. Simply put, the normative framework in agriculture at the international level is not as strong and unified as it is in central banking, fiscal

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[21] For instance, the Ministry of Agriculture (MARA) at first protested the project, but later returned to the bargaining table with proposals to *rush* the reform process, probably expecting to expose its faults in its infancy. The Ministry of Industry and Trade (MIT), on the other hand, conducted tough negotiations with the Treasury to preserve its hold over cooperatives (Interview, Department Head, Anonymous, the Undersecretariat of Treasury, 24 August 2004.)

[22] Interview, Department Head (Anonymous), the Undersecretariat of Treasury, 22 December 2004.

[23] The government's agricultural strategy document for 2006-2010 allocates 45 percent of the total support budget to DIS payments and only 5 percent to "other payments". Yet the same document also allows the government to alter these ratios up to 25 percent either way for any support instrument, which gives politicians a relatively free hand in deciding how much and how to support agriculture.

management or banking regulation. The institutional reforms in the US and the EU in the 1990s, which emphasized DIS schemes over market-distorting price subsidies, were certainly instrumental in exposing the shortcomings of Turkey's traditionally populist support regime and building support for the reformist momentum of the 2000. Yet in terms of encouraging and enforcing global norms, agriculture does not have the global equivalent of a BIS that insists on coherent regulatory principles or international investors who could pull out at the first signs of fiscal and monetary mismanagement. About the only real attempts at policy convergence in agricultural subsidies comes from the World Trade Organization (WTO), but the current impasse in agricultural trade talks under the Doha Round and persistently high levels of support in most developed countries signifies anything but an enforceable harmonization in this area. This in turn gives policymakers in developing countries a freer hand, particularly at a time of high agricultural commodity prices. For instance, the revival of old support instruments in Turkey did draw criticism from both the EU and the OECD[24], yet these simply do not seem to carry much weight in a relatively volatile global policy environment.

5. *Social Security Reform*

As with agricultural subsidies, social security is also marked by a degree of global normative heterogeneity. The PWC agenda in this area tries to juggle the often contradictory goals of catering fiscal efficiency and flexible labor markets on the one hand, and ensuring social protection and thereby defusing potential distributive conflicts, on the other. Further complicating the picture is the vast range of pension and health care models and reform experiences in both the developed and developing world.[25] Nonetheless a general policy tendency did emerge over the past 15-20 years, most notably in the area of pension reform. Here, policy wisdom tends to favor a transition out of 'pay-as-you-go' (PAYG) and 'defined-benefit' systems where current contributions are immediately disbursed to current beneficiaries, and future benefits are defined in advance regardless of the funds available in the system or the total contributions of the individual at the time of entitlement. Instead, there has been some emphasis on the potential virtues of fully-funded, 'defined-contribution' and in particular privatized systems where pension is a direct function of the individual's past contributions and where there is extensive room for private management of pension funds (Schwarz, 2006). The hallmark of this latter is the Chilean system after 1981 which is often hailed as a viable model to emulate around the world. The way countries try to adopt this model shows a great deal of variation, however, even in broadly comparable Latin American cases (Weyland, 2002). Meanwhile the effectiveness of the model itself is still in question, with 'failed promises' outweighing the perceived benefits in many instances (O'Neil, 2007).

Almost invariably, fiscal sustainability is the fundamental motive for social security reform. The Turkish case is no exception, with the deficits of the social security system hovering around 4-5 percent of its GDP over the past few years. But unlike in most developed and some developing country cases, an ageing population is not an

[24] See the most recent OECD country survey of Turkey (OECD, 2006b: 17ff) and the EU Progress Report of November 2007 (Commission of the European Communities, 2007: 44).

[25] See, for instance, Whiteford and Whitehouse (2006) for the diversity of pension systems with the OECD.

important cause of the Turkish problem, although it is a consideration for the future. Rather, at the root of Turkey's current social security bottlenecks are two specific issues. The first is the low level of contributions in the system relative to the country's active workforce, primarily because of the high incidence of informal, unregistered employment, which also disproportionately increases the number of dependents per beneficiary. The second is very high numbers of primary beneficiaries relative to population dynamics, mainly as a result of a boom in young retirees over the past 15 years. This was caused by a 1992 legislation by the populist coalition government of the time, which set the minimum retirement age at a mere 38 for women and 43 for men, after 20 and 25 years of work, respectively.

The first attempt at reform dates back to 1999 when the extent of the problem became more conspicuous in a deteriorating fiscal environment (Law No. 4447). The basic concern of this reform was to respond to the 1992 legislation by increasing the eligibility age to 58 for women and 60 for men, conditional upon a minimum of 7,000 days of premium payments. It did not, however, change the main features of the system, which was strictly cast on the PAYG, defined-benefit model. The regime remained fragmented along three large organizations as well, that covered civil servants (ES), workers (SSK) and the self-employed (BAĞ-KUR) under separate roofs, with gross differences in procedures, pay scales and the quality of benefits in between. About the only institutional innovation of the 1999 legislation was the introduction of limited unemployment insurance.

The postcrisis reformation of the system has displayed a similar path, with limited genuine institutional change. Most importantly, it has been marred by legal battles and fierce societal opposition from labor unions and professional organizations, such as the Turkish Medical Doctors Association (TTB). In 2001 the Constitutional Court overruled some articles of the 1999 law, forcing the government to ease the transition period and lower the eligibility age as well as premium requirements. In 2003 a separate Social Security Organization (SGK) was established to oversee the three-pronged structure mentioned above, but the AKP government's avowed goal of a full merger never materialized. A significant reform attempt came in 2006 in the form of a brand new, IMF-supported social security law which, although did not propose to transform the PAYG nature of the regime, nonetheless involved important changes in entitlement criteria and envisioned an overall expansion of the system (Adar, 2007). Following vociferous resistance from labor unions, however, the bill was first vetoed by the President and upon its second approval in the Parliament was rapidly quashed by the Constitutional Court. In October 2007, labor unions, business associations and other civil society organizations were invited for broad-based social deliberations with the government over a new bill, a slightly changed version of the original one.

The outcome of these deliberations, the Social Security and General Health Insurance Law (No. 5434), was enacted in April 2008 (Official Gazette, May 8). The law raises the pension eligibility age to 65 for both men and women, although it sets a very long transition period, and its effects will be fully felt only after 2036. It also introduces strong disincentives for early retirement through new criteria for benefit calculation such as multi-step accrual rates and a revalorization scheme. For workers, the premium requirement is set at 7200 days, down from a proposed 9000 after negotiations with the unions. There is some harmonization across different benefit plans, particularly in favor of the self-employed, the primary social support base of the AKP. An important innovation is in the field of state contributions to the social security system to ensure long-term sustainability, which is currently set at a respectable 25 percent of total contributions. There is also a new plan for universal health insurance, yet coverage from outside the social security system is conditional upon individual premium payments with the exception of minors and the very poor. Finally, the law regulates, to some effect, the involvement of private health care in the system as well and specifies the conditions under which differential payments might be due.

An important issue left out in the fervent policy debates on social security in Turkey is poverty alleviation. Extreme poverty is practically non-existent in Turkey, but poverty is widespread and affects about 20 percent of the population. The main formal safety net that targets this question is the Social Cooperation and Solidarity Fund, introduced in 1986 and turned into a general directorate under the Office of the Prime Minister in 2003. It is interesting to note that in this one area particularly emphasized in the PWC agenda not much has been done in the postcrisis period. In recent years the Solidarity Fund has been the main conduit for the World Bank as well for its social assistance provision (Buğra and Keyder, 2006: 222ff).

The general point is that the PWC agenda of reforms did not result in a qualitative transformation of Turkey's social security regime. Surely there have been important changes, in particular aimed at rendering the system fiscally more manageable in the long run. These attempts were fully supported by the IMF and the World Bank due mainly to their presumed fiscal outcomes. Nonetheless they were neither designed nor implemented to alter the core features of the social security regime, let alone replace it with a brand new design as was the intention in agriculture.[26] For instance, parametric reform was a core disbursement condition for the 2006 Programmatic Public Sector Development Policy Loan, but the program document defined "the challenge for authorities" in this area as "to bring about the sustainability of the PAYGO system" rather than switching to a privatized, defined-contributions regime (World Bank, 2006: 34). As a result, reformers invariably focused on improving and, in fact, expanding what already existed, and even in that process could not escape strong constraints from social and intra-state forces.

6. *Anti-Corruption*

Anti-corruption is a core theme on the PWC agenda. While the control of corruption has long been an indicator of good governance (Kaufmann, Kraay, and Zoido-Labatón, 1999), the World Bank further qualifies this emphasis by declaring corruption as "the greatest obstacle to reducing poverty"[27]. There are indeed good reasons for such emphasis. Market reforms are known to exacerbate existing problems of graft, often by creating new channels for personalistic gain at times of tumultuous economic change (Harriss-White and White, 1996). The evidence for this link is strong in all regions, from

[26] A report commissioned by the country's most powerful business association, TUSIAD, for example called for an immediate transition to private pension plans (Alper, İmrohoroğlu, Sayan, 2004: 102). But while there indeed exists a legal framework for private pensions, this option is practically irrelevant for the average Turkish employee, who remains fully committed to defined-benefits within a strictly state-managed system.

[27] The quote is from the Bank's anti-corruption portal (www.worldbank.org/corruption).

neopatrimonial African regimes (Riley, 1998; Szeftel, 2000) to rampant irregularities under Latin America's neopopulist presidents (Weyland, 2006), and from the explosion of rent-seeking groups in postsocialist transitions of Eastern Europe (Aslund, 2002) to China's persistent corruption problem under fast growth (Sun, 2004). At the same time, there is equally strong evidence for a second link—between pervasive corruption, which often follows from lack of accountability in public service, and instances of market failure in liberalizing countries (Manzetti, 2003). This, along with weak corporate governance, was indeed the IMF's primary explanation for the Asian Crisis of 1997.

Official assessments of the Turkish crisis also emphasized the problem of corruption, mainly as a major cause of macroeconomic mismanagement. Kemal Derviş, for instance, declared anticorruption as "the most important pillar" of his recovery program (Bedirhanoğlu, 2007: 1248ff). Corruption, though, is a multifaceted issue, with different manifestations in different sectors and policy areas. The technocratic focus in the immediate wake of the crisis was not on corruption writ large, but rather understandably on irregularities and the perceived moral hazard in the banking sector, which was considered the main culprit of the meltdown. Concerns included both the questionable lending practices and hazy balance sheets of some banks and the misuse of funds from public banks particularly for populist and clientelistic gain. We therefore see in the main policy ideas about combating corruption during that early reformist period a certain merging of agendas related to corporate governance, banking supervision, and public resource allocation, this latter being the more conventional turf of combating corruption. Many of the reformist demands of that banking-centered technocratic focus, as must be clear from the discussion above, were met quickly and with little trouble, mostly through BRSA regulations.

This left the burden of implementing broader countermeasures for combating corruption with the AKP government. Here, public expenditure management reform, which was already introduced above, was an important step in bringing principles of fiscal transparency and bureaucratic accountability into the traditional center of the Turkish state. This reform also coincided with a series of parallel legislations reregulating bureaucratic and state practice. One such step was the Public Procurement Law (No. 4734) of 2003, which established a Public Procurement Agency to ensure transparency and fairness in public tenders. Another was the Law no. 4982 on the Freedom of Information for Citizens, enacted the same year to assure maximum transparency in state practice. And yet another was the establishment of Civil Servants' Ethics Commission in 2004 (Law. No. 5176), which redefined the rules of conduct within public bureaucracy. The government also ratified a number of international agreements on corruption, including the Council of Europe Civil Law Convention on Corruption, the Council of Europe Criminal Law Convention on Corruption, and United Nations Convention against Corruption (Tarhan, 2005).

Certainly, then, a great deal of progress was made in adopting a legal framework that mirrors emerging global norms on anticorruption. But this strong formal commitment was hardly representative of everyday political reality. A draft bill on political ethics, which included strict asset disclosure requirements for Members of Parliament, was quickly shelved by the government in 2005. The Public Procurement Law has been amended almost 50 times since its enactment in 2003 (Münir, 2008). Over the past three years the tiny Public Procurement Agency has been at the center of a series of allegations, mostly about favoritism toward contractors close to the government, which included several projects of the Ministry of Energy and the Ministry of Transportation. In 2006 the finance minister faced a censure motion regarding his alleged involvement in port and telecommunications privatizations. Apart from these large scale scandals concerning the central authority, it is public knowledge that nepotism and clientelism is rampant in local governments as well, particularly in tenders of the Istanbul Metropolitan Municipality. The AKP government is also known for its strictly discretionary attitude in civil service appointments. Numerous media report suggest that, save perhaps the judiciary and the military, political and religious orientation are now the primary criteria for bureaucratic promotions in all quarters of public bureaucracy, and few high level posts remain, even in autonomous agencies, that are not occupied by those close to the government.

That the zeal of Turkey's postcrisis reformers in combating corruption has been more apparent than real is also confirmed by international agencies. The country's ranking in Transparency International's Corruption Perceptions Index deteriorated rapidly in the postcrisis period, from being 50th in 2000 to 64th in 2007 (www.transparency.org), while its CPI score deteriorated from 3.8 in 2000 to an average of 3.5 for 2001-2007. The IFIs are well-aware of the problem; the World Bank, for instance, speaks of a need to "reignite the initial impetus of [the] administration" and complains that "[u]nfortunately, there is no obvious action plan" (World Bank, 2006: 59). To the credit of reformers, however, there has not been a single allegation of large scale corruption regarding the financial sector in the postcrisis period—the one area in which novel global policy and institutional norms are formulated by sector-specific international agencies and indirectly enforced through global market players.

Are IFIs Passé in the Middle-Income Range?

Despite its respectable postcrisis macroeconomic performance, Turkey's recent attempts at remodeling its fundamental institutions of economic governance have generated mixed results. There is ample evidence in this record to confirm both varieties of what I have termed the 'feasibility' critique of the PWC reforms. One set of arguments suggests that the comprehensiveness of the PWC agenda of reforms is likely to make across the board implementation; thus follows the problem of breadth. Another criticism suggests that the types of institutional transformation envisioned in these reforms may not be compatible with the domestic conditions on the ground; this I have called the depth problem. On the breadth side, the comprehensiveness of the agenda has made full implementation an insurmountable task for Turkish reformers even in a very favorable political juncture, which saw a period of technocratic crisis management followed by a robust single-party government firmly committed to IFI-led restructuring. From 1999 to 2007, Parliaments led by strong, reformist governments passed almost twice as many laws compared to the 1991-1999 period,[28] mainly to keep up with the intense legislative requirements of IMF and World Bank-led programs. Even then some of the most significant items on the PWC agenda, such as corporate governance and poverty alleviation, remain relatively unexplored. There is no shortage of potential reforms, and the process is never really complete. As such, the IMF upon its seventh review of the

[28] Numbers of laws enacted per Parliamentary cohort are as follows: 1991-1995: 350; 1995-1999: 369; 1999-2002: 470; 2002-2007: 914. The ratio for 1999-2007 vs. 1991-1999 is 1.9 (www.tbmm.gov.tr).

fourth consecutive stand-by agreement with the country has recently suggested that "Turkey's challenge will be to press forward on the reform path."[29]

The depth problem was just as serious. In three policy areas analyzed here, designated reforms proved unattainable in the Turkish political-economic landscape. The agricultural subsidy reform was first watered down and then partially but legally reversed as the distributive cost grew socially unacceptable over time. From 2003 on, old support instruments were reinstated to operate alongside new ones in a hybridized regime. In social security, ambitious reform intentions encountered powerful resistance from within and outside the state. In turn reformers had to settle on strategic revisions rather than fundamental reconstruction, preserving the essence of the pre-existing scheme. Anti-corruption, meanwhile, has emerged as an area where there was a great deal of talk yet little substantive progress in terms of structural change in behavioral norms. What began as a hurried legislative activity in this field first slowed down and was then hollowed out via amendments to a core law to reopen the way to conventional patterns of graft. In all three areas, both the IMF and the World Bank pressed hard to ensure the replacement of some deep-seated institutional regimes and practices with novel arrangements, and failed. This is not to say that things have remained the same in these areas, for they most certainly did not, but the scale of transformation has been limited.

By contrast, compliance and consolidation were more easily attained in PWC reforms that involved central bank independence, the reorganization of public finance, and the reregulation of banking, although it is important to note that some of these proved organizationally and politically quite challenging. A certain pattern emerges from a comparison of these cases with the previous ones, which could help us further refine the feasibility critique. The most fundamental common denominator is that all three cases of successful PWC reform represent areas that are already marked by strong and homogenous global policy and institutional norms. From the early 1990s onwards, the idea of a monetary agency divorced from political interference has gained the status of a near-canon in mainstream economics. In public finance, traditional means of organizing government accounts can no longer be defended against widespread principles of fiscal transparency and strategically planned, performance-oriented public expenditure management. Banking, on the other hand, has seen the spread of continuously evolving international codes and standards over the past 20 years which demand an incessant process of regulatory and operational convergence if financial systems are to remain integrated. Perhaps most importantly, in all three areas the practical enforcement of global norms rested not with the IFIs, but non-IFI factors such as international agencies and conventions, and global market players, due in large part to Turkey's high levels of market integration in finance. These trends contrast sharply with those in agriculture where the notion of subsidy reform is a source of ongoing battle within and between developing and developed nations; social security in which state-based systems prevail in many countries whereas the often sluggish drive toward marketization have numerous variations in others; and anticorruption where despite strong international norms there is neither an agreed-upon institutional model to tackle the issue nor strong international mechanisms of enforcement in most policy areas. In short all three instances of relative reform failure (or limited transformation) were marked by a lack of universal ideational

[29] IMF Press Release (08/106).

legitimacy and global enforcement mechanisms that went beyond the IFIs immediate sphere of influence.

This clear pattern, where the existence of strong and independently enforceable global norms seems to trump the influence of the IMF and the World Bank in bringing about the types of comprehensive institutional reforms advocated by the PWC agenda, forces us to rethink the status of these organizations as promoters of change in the developing world. The question is especially important for middle-income countries in which the PWC agenda is no doubt more applicable. Judging from the Turkish experience, the country most exposed to the IFIs in that income range during the ascendancy of the PWC, one would be hard-pressed not to conclude a structural shift has indeed occurred. The IFIs now seem to be relegated to a more auxiliary role, from being the main generators and enforcers of dominant wisdom under the Washington Consensus to one that mainly involves repackaging and encouragement of norms that emerge and mature elsewhere, the causes of which are undoubtedly too complex to dwell on here. But does this shift warrant writing off these organizations in the middle income range?

I do not think so. Evidence from Turkey suggests that, although the IFI influence is now secondary to cohesive and non-IFI-enforced global norms in remorphing domestic policies and institutions in the semi-periphery, it is not independent from these norms and is therefore still too critical to ignore. Clearly, the IMF and the World Bank were quite instrumental in streamlining the reformist agendas in the three instances of strong compliance, in particular in the area of public finance reform. Perhaps less visible, however, was their significance in those areas marked by relative failure. In these examples, even though pre-existing institutions proved too resilient to be fundamentally redesigned through IFI encouragement alone, reform attempts have nevertheless rattled the cages of some deep-seated arrangements that had proved immune to the fundamental shifts in Turkey's policy regime over the past two decades. Institutions that govern agriculture, provide social security, and permit rampant corruption are too now placed on paths of relative vulnerability in the face of evolving global norms. Their relative persistence in that sense is no longer a function of their autarky, but the outcome of a certain mismatch between where these norms currently are in terms of strength and cohesiveness and whether they can be successfully adapted to and enforced within the domestic scene. This in effect takes us back to the depth problem.

Adjusting the Research Agenda

I will suggest in concluding that the recent Turkish experience also reveals the PWC does have some significant implications for analysis. The comprehensive institutional content of these reforms, along with the strong influence of global norms in that process, requires some adjustments in research strategy. I will make two points here. On the one hand, the deeply political nature of these reforms pulls us back toward some conventional concerns of comparative political analysis. On the other hand, we also need to expand our analytical toolkit to better address some distinct institutional questions that arise from this new agenda.

First, we had been warned well-beforehand that the policy successor to market orthodoxy would trigger thicker political-administrative analyses in the conventional sense. Some 15 years ago, Moises Naim in his seminal article argued that the second-stage of market reforms would require "more coalition building, political manoeuvring and managerial capacity than did the initial, stabilization-oriented, decree-driven stage" (1994: 43). Turkey's reform experience since 2000 is a clear confirmation of this. In every policy area analyzed above, Turkey's institutional reformers encountered strong political opposition from within and outside the state, and in all areas their attempts were saddled by deep-seated administrative habits and bureaucratic inertia. More importantly, in each area they were forced to strike complex coalitions with societal forces and strategize around different reform objectives. Their primary partner in that process was industrial and commercial bourgeoisie, including both the industrially-affiliated and Istanbul-based conglomerates represented by TUSIAD and the Anatolian entrepreneurs that found voice in the Turkish Union of Chambers (TOBB). These business groups, ever weary of chronic macroeconomic instability and the gobbling up of bank credits by the Turkish state for the financing of fiscal deficits, threw their weight behind fiscal and banking sector reforms at crucial moments of the restructuring process. These groups, then, were instrumental in defeating the stiff resistance to both types of reforms from within the financial community, particularly from the collection of small banks known as the 'rentier' class, which would be partly destroyed in the process. And rapid progress made in these areas certainly tempered the resistance of these circles to tight monetary policy and the overvaluation of the lira brought about by central bank independence.

Yet not all coalitions were conducive to PWC reforms. The AKP had its roots in the conservative Anatolian middle class and the urban poor, but during its election victory in 2002 quickly turned into the natural successor to Turkey's mainstream centre-right tradition which had had a strong pull with rural constituencies. This made it progressively difficult for the party to stay the radically reformist path in agricultural subsidies and further the original agenda of social security reform at the same time. Its alliance with these popular interests would be consolidated in the 2007 elections, which may partially explain the party's apparent reform fatigue and the extensive amendments to the social security bill in accordance with unions' demands since then. And even though it received strong support from business circles on both reforms, this was not sufficient for the party to go directly against popular sentiments in these areas.

Such domestic politics-oriented analyses are ever more valid for explaining the trajectory of PWC reforms in Turkey, much more so than for the first-generation reforms, many of which had been carried out under semi-authoritarian, technocratic exclusion and never gone quite as deep institutionally. This point, however, should not be taken as a potential repudiation of the 'global norms' argument advanced above to account for the variations in reform compliance. The reform opening of 2000-2001 exposed the entire Turkish policy environment to emergent international norms. And to reiterate, it was mainly the unfavourable content, lack of overall cohesiveness and the difficulties of enforcement of these norms in agriculture, social security and anti-corruption which complicated their successful political 'marketing' at the domestic level.

The second important analytic significance of the PWC reforms is that they call for, by their very nature, well-developed institutional analyses. The first generation reforms inspired by neoclassical orthodoxy were somewhat destructive in tone; they were positioned directly against statist, inward-oriented development strategies that marked the postwar period. The PWC, by contrast, has a more constructive, disciplining side; it encourages countries not to simply dismantle existing domestic arrangements but rebuild them in an ambitious quest for convergence on ideal-type institutions of the North. It is thus not surprising for this new agenda to be denounced as a "sophisticated re-invention of earlier 'modernisation' theory" (Leftwich, 2005: 590).

But although such institutional convergence is a relatively new theme for the developing world, it is not so new for advanced industrial countries. The core debate in the comparative political economy literature since the mid-1990s is whether advanced economies themselves are converging on certain norms and practices reflective of the Northern balance of power, in particular, under pressure from an Anglo-American-led globalization in most areas (e.g. Berger and Dore, 1996; Hall and Soskice, 2001). These questions have in turn generated a great deal of institutional analysis and expanded the borders and the quality of critical work in that field exponentially. The conceptual and argumentative content of this literature is enormous. Here, I will emphasize only two themes from this body of work, for the simple purpose of showing that such potential commonality in institutional experiences between some countries of the North and the South opens the door to shared analytic concerns.

One fundamental topic on the IPE side of the above literature is how best to explain the quick adoption of new financial standards across the developed world, covered in the debate on regulatory harmonization. This literature alerts us to the relative effects of domestic and international level variables, and puts collective action at the center of theory. Thus, Beth Simmons (2001: 591) explains outcomes of regulatory harmonization on the basis of "strategic interactions between a dominant 'regulatory innovator' and the rest of the financial world", placing special emphasis on incentive structures and externalities in this process. Simmons argues that when the dominant center, namely, the U.S., promotes harmonization and when 'followers' respond to this incentive by adopting strategies of adjustment, a pattern of 'market harmonization with institutional assistance' is more likely, from which multilateral arrangements and technical assistance will follow. This primarily corresponds to the emergence of global banking regulations from the late 1980s on. Turkey in that sense has been a good 'follower' for some time; its formal adoption of these rules goes far back with timely updates throughout the 1990s; its main problem, however, was one of enforcement. David Singer's (2004) contribution is quite useful in explaining the reversal of this destructive trend in Turkey. Singer explains harmonization via domestic political pressures, particularly in the face of declining confidence in the financial system and increased external competition. This indeed seems to be the crucial factor in overcoming the problem of enforceability of these rules in Turkey. Only after the accumulation of problems in the system passed an acceptable threshold, that is, in 1999, that the Turkish authorities took steps toward harmonization in practice as well. These efforts were reinforced in the aftermath of the 2001 crisis, following the total collapse of confidence in the system and loss of external competitiveness. While both Simmons' and Singer's contributions focus on the experience of financial systems in advanced political economies, their basic findings do apply to the Turkish case.

The second theme I shall emphasize is institutional complementarity. This notion has recently received a great deal of interest from both institutional economists (e.g. Aoki, 2001; 2007) and political scientists (e.g. Deeg, 2007). The idea of complementarity adds a holistic touch to discussions of institutional persistence and change by emphasizing "synchronic interdependencies" between institutions in different domains

(Aoki, 2001: 225). The concept is undoubtedly a good candidate for providing deep insight into the design and implementation of PWC-inspired reforms, which advocate simultaneous and comprehensive institutional reorganization in multiple policy areas. The trajectory of these reforms in Turkey offers fertile ground to affirm this. I will give two examples, launching from Deeg's (2007) distinction between complementarity in the form of *synergy* and complementarity in the form of *supplementarity*.

Synergy entails "the mutually reinforcing effects of compatible incentive structures in different subsystems of an economy" (Ibid: 61). This type of complementarity was clearly very strong between fiscal, banking sector, and central bank reforms. The banking crisis and the inevitable restructuring of the sector created very strong incentives for fiscal reform as deficit financing through the open positions of the system ceased to be an option by 2001; the transparency requirements and new codifications in public accounts and banks' balance sheets were primarily based on the same norms; the quick consolidation of central bank independence reinforced reforms in both banking and public finance, signaling that neither the Treasury nor public banks could fall back upon the Bank if they got into trouble due to continued laxity, and so on.

Supplementarity, on the other hand, suggest that "one institution makes up for the deficiencies of the other (i.e. provides a 'missing ingredient'), thus raising the returns to actors from the first institution" (Ibid.). There does indeed exist precisely that sort of complementarity between populist-corporatist support schemes in agriculture and the relatively generous social security regime. Turkish agriculture is in a state of absolute inter-sectoral disadvantage: although it employs around 30 percent of the Turkish workforce today, it accounts for around 10 percent of the GDP. And despite fiscally burdensome subsidy schemes which transferred substantial funds to the countryside in much of the postwar period, rural poverty is widespread and the inter-sectoral income gap continues to grow. An extensive, state-funded social security system is therefore crucial in order to supplement the antiquated subsidy regime in its time-honored mission to at least partially ameliorate this systemic disparity. Conversely, trying to reform both regimes simultaneously, in the ways originally envisioned by PWC reformers, would pull the Turkish state out of the countryside altogether, which simply had no sociopolitical viability. The deep-seated supplementarity of the agricultural and social security institutions, then, offers one explanation for the joint reform failure in these domains.

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