

THE MOTHER OF ALL CRISES

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The three-party coalition government led by Bülent Ecevit, which is currently in power is not one of the strongest governments in the history of the Turkish Republic. In fact it is probably one of the weakest. Or rather it is one that has "limited liability".

Paradoxically, this is also "the strongest" government the country has seen over the past six years. Since the 1995 elections, no other government had such a strong majority in the Parliament and no government made the Parliament work so hard and had such a good legislative performance. I happen to share the view of many other commentators that the nature of the composition of this government is its weakness. Yet despite this fact the tripartite coalition also had the task of implementing the most radical political and economic reforms of recent times.

From the moment of its inception the coalition government was faced with two demanding tasks. Not only

was it charged with the duty to undertake challenging economic reforms but it also had to prepare the country for accession to the EU by initiating extensive legislative reforms. This legislative effort was necessary in order to achieve harmonization with EU legislation. And if one were to believe all the statements emanating from the government the coalition partners have been working in harmony and were ready to successfully complete these two gigantic tasks. Was this really so? And even if it were, would this be enough to realize these reforms.

The roots of the crisis are very deep

When trying to discover the political causes of the economic crisis that struck Turkey in November 2000 and then in February 2001, it is necessary to go back in time, perhaps to the beginning of the 1990s. The crisis, now dubbed "the twin crises", was perhaps the zenith of the routine breakdowns of this past decade, which Turkey has generously allowed

to go to waste. When you look at the first crisis in terms of its political underpinnings, it may even be surprising that the crisis happened in November and not in September (or in October, or in August). Similarly, one can question as to why the following installment waited till February.

The eighties were a decade of great accomplishments for Turkey. This success was a result of big economic transformation and initiatives that the ANAP government had engineered. On the eve of the 1991 elections the country was after two great goals. It wanted the continuation of its economic accomplishments. But it also desired that these be complemented by democratization and deregulation /privatization. Only so, the public believed, could Turkey catch up with the spirit of the times, and benefit from globalization.

The early elections of 1991, which took place partly due to the pressure from the opposition, ushered in a new era of coalition governments in



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Turkey. The DYP-SHP coalition government, formed following these elections, was generally perceived to be a 'dream government' since many people believed that if these two main branches of Turkish politics had come together before 1980, the military coup that took place that year could have been averted.

The programs that the two parties presented before the elections had many similarities: the promises ranged from creating transparent police headquarters to recognizing "the Kurdish reality", to opening the doors of the Parliament to the traditionally excluded Kurdish nationalists, and much more...

However, the new government headed by Süleyman Demirel turned out to be a big disappointment. Months after the government was formed, the Prime Minister was still busy receiving and shaking hands with the delegations that flooded his office daily to congratulate him. Although the country was not aware of it, the crisis had already begun.

The vacuum created by the sudden death of President Özal, in April of 1993 had a domino effect. Demirel became President and a novice in politics, Mrs. Tansu Çiller took over the Prime Ministry. In a sense Turkey was left without a Prime Minister. The economy, which rested on very delicate balances, was hit by the 1994 crisis, because of incompetent management among other reasons.

The price that was paid for getting out of that crisis was to set the bases for future ones. Immediately following that period, the relative importance of treasury bonds in the budget rose to unprecedented levels.

The opposition prior to the 1995 elections was bitter. Yet the Motherland Party (ANAP) that was responsible for such tough opposition politics did much worse than it had expected. The Islamist Welfare (Refah) Party received 21.3 percent of the votes and proved to be the dark horse of these elections. The Turkish public, including the media, was polarized prior to the elections and no

one had time to concentrate on the state of the economy. Accusations of corruption and insults were openly exchanged during the campaign.

In the aftermath of the elections the business world, joined by the media, put an inordinate amount of pressure on Tansu Çiller and Mesut Yılmaz, the two main actors of the right, to form a new "dream government".

Another "dream" government was thus formed but it had a short life span as it ended within three months of its formation. In the meantime most of the credibility that Mesut Yılmaz had accumulated as opposition leader irredeemably eroded. The following government was a "nightmare government" for the Turkish élites and the business circles. The Welfare Party had come to power. Although this government had a longer life than the previous one, it still lasted less than a year. The government was forced to resign as a result of the pressure exerted by the military through the so-called February 28 process. Turkey entered a

new, turbulent political era.

The minority coalition government which was formed in July 1997 in the aftermath of the "post-modern coup d'état" of the "February 28 process", and led by Mesut Yılmaz, had the task of achieving political normalization and reinstating the military to its normal position in the democratic system. However, that government decided to divert its energies towards the much bigger goal of achieving economic stabilization. The government was certainly going to remain in power until November 2000. It was going to implement a three-year stabilization plan. Turkey's inflation would go down to single-digit figures, etc.

During the tenure of this government, political instability in Turkey reached its peak. Undersecretary of the Treasury Mahfi Ercilmez, to whom various promises were made when he took this job, resigned because the stabilization plan was not being implemented. Turkey, was actually implementing a plan of "half-stabilization". While public spending continued at full steam, interest rates climbed above a hundred percent.

On the other hand, pressure for early elections, mainly coming from CHP leader Deniz Baykal, persisted. Due to this restless environment, the interest rates were rising even further, thus pushing the public's borrowing requirement to unsustainable heights.

After having been forced to call early elections in eight months' time the government fell without even finishing its shortened term. A corruption scandal involving the sale of a bank in which the Prime Minister was implicated undid the government. The control of the country was then given to Bülent Ecevit who formed a

minority government that was to take the country to elections. Turkey went to the polls with its finances in dire straits. The real interest rates were unsustainably high and the terms got increasingly shorter. Lucky for Mr. Ecevit, two months prior to the elections, the leader of the PKK Abdullah Öcalan was apprehended in Kenya and brought back to Turkey to stand trial. Mr. Ecevit's prestige skyrocketed.

The exchange in 1999

The elections that were held in April 1999 had serious implications for Turkish political life. First of all, the military had a stake in the percentage of votes received by the two parties it forced out of power. The results were to the military's satisfaction. Fazilet (Virtue) Party, the successor of the outlawed Refah Party, received 6 percentage points less than in previous elections. DYP, which had lost most of its credibility after forming a coalition with Refah just made it over the 10% threshold. CHP, the founder of the Republic that campaigned with Atatürk's posters, wasn't even able to reach the 10% since the public was more interested in punishing Baykal for his aggressive attacks on the previous government than in the fact that CHP had been the founder of the Republic.

Another important result of the elections was the big leap made by the extreme nationalist MHP (Nationalist Action Party), which received 18% of the votes and thus became the second largest party in the country. Ecevit's DSP had also increased its votes substantially and came out of the elections as the leader of the pack. ANAP like DYP just made it into the Parliament. Since the parties on probation, Virtue and DYP, would

not be "allowed" to be in the government, the only possible combination of parties presented itself as Turkey's new coalition. DSP-MHP-ANAP formed the new government as Turkey's only available choice. This fact is one of the most important reasons of this government's weakness since the coalition was the child of necessity rather than the result of a meeting of the minds. Contrary to expectations, then, the elections did not bring about normalization. Instead, the influence of the military was enhanced.

Let there be no misunderstanding. The military did not form this government but the fear of the military sure did. President Demirel, now in the final year of his term, had spent his last two years in office trying to keep afloat the boat of civilian democracy which was full of holes while at the same time trying to convince the public that the boat was still in good shape. He was responsible for bringing together these three very different parties. The new government was not received with any enthusiasm, nor did it generate great hopes since most people realized how bad Turkey's predicament was and thus resigned themselves to the new political configuration.

Under pressure from the bureaucrats who have been working on a serious stabilization program for some time, the government decided to try its hand on a new economic program however half-hearted this decision may have been. Still, the IMF stamp of approval was needed to launch the program. The negotiations were conducted by bureaucrats, and by the Minister of the Treasury Hikmet Uluçbay, himself a former Treasury man. The government never really owned up to this program. It is



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doubtful that the cabinet even clearly understood the full parameters and implications of it. Therefore from the very beginning, the plan was the property of two bureaucrats: the Governor of the Central Bank Gazi Erçel, and the Undersecretary of the Treasury Selçuk Demiralp.

Another factor that gave the impression that the government was not squarely behind the plan was the identity of Recep Önal. Önal was appointed Minister of the Treasury after Hikmet Uluþbay's suicide attempt. He and the Undersecretary of the Treasury Selçuk Demiralp never got along mainly because Demiralp was always one step ahead of Önal. Önal did not know English and could not participate in the IMF talks effectively. Another reason for this lack of harmony between the two was Demiralp's firm stance in not allowing Önal to meddle in the affairs of the Treasury.

Despite these problems the government did work effectively in keeping to the budget guidelines and

enacting some of the necessary laws for structural reforms. Yet, certain habits die hard. The elimination of extra-budgetary funds met stiff political resistance. Some of the most important funds were still in place four months after they were supposed to have been phased out. Although additional promises were made to the IMF about the funds after the November crisis, the full realization of this goal had to wait till after the arrival of Kemal Derviş, a new stand-by agreement with the IMF and for the month of June. The promise was kept with a 19-month delay and the law that made the funds a thing of the past was signed by the President on July 3rd.

A similar case was the sale of Turkish Telekom. The Telekom privatization acquired meanings that went far beyond a simple sale of assets. Although Turkey has for the last 15 years declared its intention to sell the Telekom, it kept on failing to prepare the necessary legal framework. Thus it was no surprise that the

law that was passed this time was once again an incomplete one because of the political resistance to privatization. As a result no buyers presented themselves when Telekom was opened to bidding. The sale was a complete fiasco.

In the Spring of 2000 the first cracks began to appear in the coalition. The proximate cause was the attempt to reelect Süleyman Demirel as President to keep him in office for five more years that proved to be unsuccessful mainly because of ANAP's opposition. The secret glue that kept the three disparate partners together just disappeared. As Demirel left the scene, the partners found themselves without an umpire that would pull them together in moments of trouble.

It was in the middle of the debate on the failure to change the constitution that a speech made by Devlet Bahçeli, the leader of MHP, was leaked to the press. Full of resentment against ANAP for not keeping its promise when it came to support the

coalition's position on the reelection of Demirel, Bahçeli stated that "ANAP can leave this government". There were unconfirmed reports in the newspapers that there was a plan to change the composition of the government and make it a two-party coalition. Alternatively the plan was to oust ANAP and bring in the DYP. In the end nothing came out of this shadow fencing, the PM came up with an alternative candidate – a choice that he would come to regret deeply in due course- and the Chief Justice of the Constitutional Court, Ahmet Necdet Sezer became the 10th President of the Turkish Republic.

An issue of increasing concern was the charges brought against the Fazilet Party on the grounds that FP was the successor of the closed Refah Party. The prosecutor called for the lifting of the Parliamentary status of all FP deputies save one. This possibility which no one had taken seriously at the time was beginning to be the subject of many conversations in Ankara during the summer months.

During this period MHP President Bahçeli instructed his party to "be ready for elections". The rationale behind this instruction was a constitutional requirement. If 5 percent of Parliamentary seats (28 members) are vacated for whatever reason, then the country has to hold by-elections. If the Court decided in favor of the Prosecution and stripped the FP deputies of their Parliamentary status, then there would have been no escape from by-elections. Furthermore, since the 10 percent threshold for parliamentary representation did not apply in by-elections, the regionally powerful Kurdish nationalist HADEP, would have been able to put representatives in the Parliament.

To complicate matters even further, the government had a very public and ultimately humiliating confrontation with the President. Mr. Sezer refused to sign a decree sent to him by the Cabinet, on the grounds that the investigative powers it required against bureaucrats were unconstitutional. Ecevit was furious, but equally helpless as the public supported the President over-whelmingly. Yet another factor that increased political uncertainty in the country was the health of the Prime Minister. Rumor mills kept on spreading the word that Ecevit was dead or that he was hospitalized. Any such rumor sent shock waves to the stock market. Although the rumors were ill intentioned and false, it also underscored the fact that everybody believed that the Prime Minister of Turkey could die at any moment.

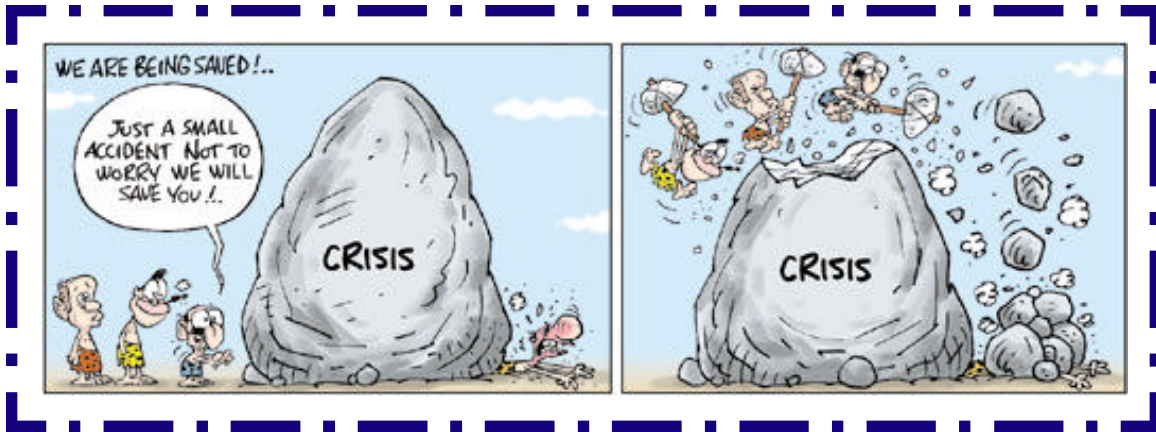
To all that political uncertainty was added the thunderous entry on the stage of the newly founded Banking Regulation and Inspection Council (BDDK) in September. The fact that the case of Egebank, owned by former President Demirel's nephew Murat Demirel, was handed to a media-loving prosecutor in the Ankara State Security Court was a boon for the Press. Everyday new details about the way Mr. Murat Demirel has transferred the funds of his bank to his private accounts filled the pages of newspapers and TV screens. As the indictments continued hardly a day passed without the photo of some respected businessman in handcuffs appearing on the front pages of the newspapers. It became amply clear that the rotten rules of the banking sector had changed. BDDK's President Zekeriya Temizel attacked gangrenous problems with great zeal. The seizure of Etibank, which

belonged to one of the two most powerful media groups in Turkey, was a breathtaking example of determination and of courage. But it was also a harbinger of the crisis, which was ready to erupt.

Onset of the crisis

Ultimately, none of the above would have mattered if it were not for a readily observable development. The government was already showing signs of 'reform fatigue'. The early phase of the stabilization program was completed with relatively little cost to the politicians. The first positive results like lower interest rates and inflation were already reached. However the need to go ahead with the structural reforms, particularly banking reform, and privatization was still present. Since these would have deprived the politicians of the fruits of patronage and populism foot-dragging became the order of the day. Signs of impending trouble began to appear for those who looked for them as early as August. In view of this political problem, according to many independent commentators, the crisis, which broke in November, was a "crisis of confidence". However, during its first days, both the government and the economic management labeled it a "crisis of gossip".

The crisis erupted on Wednesday, November 22. Why it erupted on that day and what had happened that day in the 'dealing rooms' of the banks and in the offices of the Central Bank that handled money markets is unknown to us. Different versions are circulating that claim to tell the real story behind the eruption of the crisis. The common thread is that the crisis involved a medium size bank with large t-bond holdings, Demirbank (see Servet Yıldırım's piece in this issue).



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Whatever may have exactly happened on that day actually has little relevance since the crisis had happened as a result of years of accumulated negligence, irresponsibility and bad governance. There has been a lot of discussion on this subject. Some analysts claimed that the cause of the crisis was the incompetence of the IMF and Turkey's economic management, and the wrong decisions that they took in the heat of the crisis. They may be right, but from a political perspective the crisis was inevitable. Just as in Argentina, Brazil or Mexico, the confidence in the political system in Turkey is extremely fragile. Trust can evaporate in a matter of hours, but to recuperate the same level of confidence may take months, even years. This fragility imposes on Turkish politicians the responsibility of taking decisions only after having thought them through. But on almost all occasions they act in the opposite direction. This fragility in confidence stemmed from the uncertainty as to whether the government has actually understood its

own plan and whether it might stop its implementation.

Such were the circumstances prior to and during the crisis that hit Turkey on 22d of November, 2000.

Ankara was hectic during the week of the November crisis. The IMF authorities presented a series of emergency proposals and a credit package. In a short period of time, an agreement was reached, another letter of intent was signed, the money came and the markets calmed down to some extent. Despite the intensity of the debacle Turkey took the crisis as if it was pricked by a thorn. Remove the thorn and everything goes back to business as usual.

The government and the IMF decided to continue with the same program. The Central Bank was keeping the soft peg. However, there was a problem: The overnight interest rates were very high.

The period between the November and the February crises was not properly discussed and analyzed. In between the two crises the foreign

banks in particular made unbelievable profits in Turkey because of the ignorance and incompetence of the Turkish authorities. The overnight interest rates remained high between 70-80 percent. Since the exchange rates were known beforehand, the differential offered tremendous gains to anyone with enough hard currency in his pocket. The game was simple. You bought Turkish Lira with your foreign currency, put it in the bank overnight or two nights or if you were really brave for one week, collected your interest then got out of the system by buying foreign exchange again.

In Turkey no institution, not the Central Bank, not the Treasury, intervened in this game for two and a half months. Then a bizarre incident happened and brought all the factors together to level the entire system to the ground. In the morning of February 19, one day before the largest ever auction in the history of the country, during a National Security Council meeting the Prime Minister and the President picked up a

fight (see Altur Turan's article in this issue). Under normal circumstances a quarrel between the President and the Prime Minister can not be the cause for a major economic crisis but the situation in Turkey was anything but normal. Thus what could have been a meaningless quarrel if the country had been stable, led to overnight interest rates of 6000 percent. The peg was dropped, the currency was left to float. A well-respected international economist and civil servant, Kemal Derviş, was brought in from the World Bank as a savior. The IMF backed yet another program presented by Derviş and gave Turkey generous support for implementing it along with the World Bank. To date the TL lost 60 percent of its value against the dollar. We are all poorer now through no fault of our own.

Hard as it is to believe, the government did not seem to have a clue as to what happened and what the post-crisis environment and the new program actually meant. This is the only way to understand the resistance of Minister Enis Öksüz to Telekom's privatization and all the troubles that resulted from his refusal to give up his rights of patronage. Ultimately it was the markets that taught the government the hard lesson and forced the resignation of Öksüz. The dollar went up to stratospheric heights when the IMF refused to release the funds that were due in July, because the Telekom board was not to its liking. To be fair though, the government did push all the legislation demanded by the IMF through the Parliament in record time. One only wishes that they had done this before the country literally hit the wall.

Ultimately, if one were to define the cause of the crises it would be the

absence of management. The crisis clearly showed the world that Turkey is a country that is not governed. Despite the fact that the crisis manifested itself disastrously in the economy, it is in essence a political crisis and its solution lies in a thoroughgoing structural political reform.

This essay is being written in July and until now Turkey has not yet started to discuss the need for political reform. One doesn't need to be a fortuneteller to foresee the collapse of the present government. Turkey may eventually have to go through another crisis as well if the political problems are not addressed. Many political analysts, myself included, think that Turkey will have to hold national elections in 2002 one way or the other. These elections will be so significant that they will shape the political future of the country.

Nowadays, Turkey is experiencing a very rare phenomenon. It is not unusual for the electorate to explicitly show their lack of confidence in the government in office, however, showing the same lack of confidence in the opposition is almost unheard of.

Therefore a Kemal Derviş whose name was known to nobody except his friends just five months ago, can be our collective "hope" and take the lead in most opinion polls. Among the conservatives, Recep Tayyip Erdoğan, the former mayor of İstanbul is the great hope. He has just assumed the leadership of the Justice and Development Party, which he founded with the reformist deputies from the now-defunct Virtue Party. Former President Süleyman Demirel is also indicating his readiness for a challenge.

Many foreign observers of Turkey

express their trust in the future of the country. However, this trust is not related to the near future but to the medium or long term future. Yet, Turkey's short-term needs are tremendous and the short-term actions will define the medium and long terms. The crisis that Turkey is living through will probably stay with us for some time to come. To paraphrase what Saddam Hussain called the Gulf War, this is "The mother of all crises".

Yet, the crisis also opens the way to a series of opportunities. The public that has been, for years, indifferent to politics, has this time identified the problem and is getting increasingly politicized. A considerable number of non-governmental organizations, have healthy proposals concerning the structural reforms that are needed in the political system. Turkey is debating these suggestions and wants to realize them as soon as possible.

There is a hope for Turkey: The European Union. The crisis may accelerate the process towards integration with the EU. It is understood that the economic program can only be fully implemented if politics, in its negative sense, does not interfere. Once the rehabilitation of the economy is completed Turkey would be ready for admission into the European Monetary Union within 5-6 years. It will be easier for a Turkey that has reached the economic standards of Europe, to improve her democracy.

However, there also exists the possibility of a failure, the possibility that the chaotic conditions will last for decades. The probability of this, nobody wants to think about.

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