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TURKEY: CRISIS OF IMF-DIRECTED POLICIES AND POSSIBILITY OF ALTERNATIVES*

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Abstract:

The beginning of the 2001 in Turkey has been marked by a very destructive economic crisis. The increased fragility of the system after the implementation of an IMF-directed "disinflation and stabilization" program paved the way to the collapse of both the program itself and the economy. This paper argues that the crisis can neither be explained solely by the coincidence of independent events nor by technical problems of economic policies. The IMF-directed policies caused the crises by increasing the fragility of the system. Insistence on these policies will only worsen the conditions and results of these policies are both economically and socially undesirable. This paper shows that alternative policies and tools, which will provide improvements in growth, employment, and income distribution are available.

Keys words: Financial crisis, IMF, Turkey.

INTRODUCTION

After financial liberalization in 1989, Turkish economy's growth performance has been sluggish with two minor and two major recessions. In the 1990s, the economy showed a "boom-bust" growth performance with a relatively low average growth rate and high volatility. Inflation rates floated around 65-70 percent in the first half of the decade and reached at 80-90 percent in the second half. While the domestic debt stock and public sector borrowing requirement reached to unprecedented levels, nominal interest rates exceeded 100 percent[1].

After a series of unsuccessful stabilization attempts, the government announced an ambitious three-year IMF-directed exchange rate based stabilization program at the end of 1999. The program was targeting to reduce inflation rate, real interest rates and government's debt. From this date until November 2000,

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[1] For a thorough overview of the macroeconomic developments in post-liberalization Turkish economy see Ertugrul and Selcuk (2000), Boratav et. al. (2000), Kepenek and Yenturk (2001), Ucer (1999), Yeldan (1992).

Turkey was winning praise from international financial analysts and the IMF for its stabilization policies. Yet, in November 2000, Turkish economy experienced a severe financial crisis. US$6 billions of short-term capital fled, causing a severe liquidity shortage in the domestic markets and sending overnight interest rates as much high as 2,000 percent. The outward-bound capital flow was halted and devaluation fears allayed only after the IMF granted US$7.5 billions of additional support. Shortly after this crisis, public disclosure of a dispute between the President and Prime Minister triggered a new wave of crisis in February 2001. Jittery investors pulled US$5 billions out of Turkey on February 19th alone. The central bank's foreign reserves of less than US$20 billions were at the risk of being depleted. Moreover, the government's own ability to raise money to finance the deficits was threatened by the absurdly high interest rates. In an attempt to maintain the managed exchange-rate regime, overnight interest rates soared to several thousand percent. Eventually, the devaluation of the Turkish lira seemed inevitable. The abandonment of the pegged exchange rate system caused an immediate and sharp devaluation of about 30 percent against the US dollar.

Following the collapse of the program and the economy, the new minister of economy Mr. Kemal Dervis (former Vice President of the World Bank) announced the initiation of a new stabilization effort in May 2001. The so-called "Program of Transition to a Strong Economy" was nothing but the continuation of the previous program, as mentioned in its introduction. Now, after more than a year after the crisis and the initiation of the economic program, problems such as high public debt, high interest and inflation rates are still haunting the country (See Table 1 for main macroeconomic indicators before and after crisis).

Table 1: Main Macroeconomic Indicators Before and After "2000 Disinflation Program": 1999-2001

	1999	*2000*	*2001*
Real sector	%		
Real GNP growth rate	-6.1	6.3	-9.4
Nominal GNP growth rate	...	60.4	42.9
WPI (12-month, end-of-period)	62.9	32.7	88.6
CPI (12-month, end-of period)	68.8	39	68.5
Average nominal treasury bill interest rate	106.2	38	99.7
Average ex-ante real interest rate 1/	32	9.4	32.4
Central government budget	% of GNP		
Primary balance 2/	1.5	4.2	5
Net interest payments 3/	13.1	15.8	23.2
Overall balance	-11.6	-11.6	-18.2
Consolidated public sector			
Primary balance	2	2.3	5.7
Net interest payments 4/	22.1	21.9	24.7
PSBR (including CBT profits)	24.2	19.6	19
Net debt of public sector	61	57.4	92.2
Net external	20.1	18.3	38

(continuación)

	1999	*2000*	*2001*
Net domestic	40.9	39.1	54.2
Of which:			
Central government (gross)	42.5	40.9	70.3
Auctioned and other cash debt	25.8	23.4	25.3
Bank recapitalization	...	17.4	35.6
External sector			
Current account balance	-0.7	-4.9	1.3
Gross external debt	55	56.6	75.4
Net external debt	34	37	51.6
Short-term external debt (by remaining maturity)	20.8	23	23.3
Monetary aggregates			
Seignorage 5/	3.2	1.8	1
Nominal growth of broad liquidity (in percent)	96.9	40.2	75.1
(in billions of US dollars, unless otherwise indicated)			
Privatization proceeds	0.1	3.3	2.8
Net external financing of central government	1.4	4.1	-2.7
Amortization	6	6.2	8.2
Gross borrowing	7.4	10.3	5.5
Of which: Eurobond issues	5	7.5	2.2
GNP	187.4	201	148
GNP (in quadrillions of Turkish lira)	78.3	126	179

Sources: Central Bank (www.tcmb.gov.tr) and State Planning Organization (www.dpt.gov.tr)

1/ Average of monthly nominal interest rate divided by 12-month ahead CPI inflation. With average maturity of newly issued debt less than one year, and with FRNs paying quarterly coupons, this measure overstates the effective real interest rate when inflation is declining.

2/ On a commitment basis, excluding profit transfers from the CBT, interest receipts, and privatization proceeds.

3/ Interest payments minus interest receipts plus profit transfers from the central bank.

4/ Interest payments minus interest receipts plus CBT profits before transfers to the government.

5/ Change in reserve money in percent of GNP, where reserve money is defined as currency issued plus reserve requirements.

In this essay, we show that the November and February crises were the result of the so-called disinflation program, which increased the fragility of the economy. First part discusses the main tenets of the disinflation program and dismisses the argument that the crisis occurred due to mismanagement of the program. We demonstrate that until the crisis, the Turkish authorities implemented all three main legs of the program, namely fiscal, monetary and exchange rate policies, very much in line with the pre-announced targets. In the second part, we show how the program indeed increased the fragility of the economy. Finally, we argue that IMF type policies are not the only option by showing that there are alternative policy options for Turkey and in general.

I-) AN OVERVIEW OF 2000 DISINFLATION PROGRAM

The IMF-directed exchange rate based stabilization program,[2] which covered three years until the end of 2002, targeted to reduce the CPI to 25 percent by the end of 2000, to 12 percent by 2001 and to 7 percent by 2002. Also, reducing real interest rates, increasing the growth potential of the Turkish economy, and ensuring the efficient and fair allocation of economic resources were among the targets cited (CBRT 2000a).

The program was built upon three main legs: First, increasing the primary surplus through tight fiscal policy and finalizing "structural reforms."[3] Public expenditures were subject to specific targets. Second, exchange rate system shifted from a controlled float to a pre-announced currency depreciation system. Third, monetary policy shifted from a policy of accommodation to one which was based on a monetary rule that set the liquidity generation mechanism to the net foreign asset position of the Central Bank.

I.1-) Fiscal policy

The public finances were thought to be on an unsustainable path due to high real interest rates together with a weak fiscal primary position. The fiscal target of the program was to increase the public sector non-interest primary balance from -2.8 percent to 3.7[4] percent of the GDP by the end of 2000. A performance criterion was set on the primary surplus of the consolidated government budget.

Table 2 shows that the developments in the consolidated budget under the disinflation program of 2000 were well in line with the pre-set targets. Both the revenue and expenditure targets were met at the end of the year. However, although there was a significant improvement in the non-interest primary balance of the budget as targeted, we observe from same table that interest expenditures continued to climb, leaving the overall budget balance intact.

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[2] For details of the program see CBRT (2000a), (2000b), (2001), Ertugrul and Selcuk (2000), Gencay and Selcuk (2001), Alper, Berument and Malatyali (2001), Uygur (2001).

[3] "Structural reforms" included privatization of TEKEL (state monopoly for production of alcoholic beverages and tobacco products), sugar factories, Turkish Airlines, Telecom and many other public enterprises, abolition of agricultural support policies, limiting agricultural credits etc.

[4] This figure excluded the expenses related to the 1999 earthquake.

Table 2. Developments in the Consolidated Budget under the Disinflation Program (Fixed Prices, Trillions TL)[1]

			2000		
	1998	*1999*	*Realization*	*Target*	*Realization/ Target*
Revenues	26,912.70	28,286.50	33,756.40	32,585.50	103.6
Tax Revenues	21,391.90	22,418.30	26,526.80	24,000.00	110.5
Direct Taxes	9,305.50	10,163.20	10,861.90	9,585.00	113.3
Indirect Taxes	12,086.40	12,254.90	15,664.90	14,415.00	108.7
Expenditures	35,729.00	42,418.90	46,602.60	46,713.30	99.8
Personnel Expenditures	8,973.00	10,459.20	9,982.10	9,899.80	100.8
Investment Expenditures	2,053.30	2,331.90	2,472.30	2,351.70	105.1
Interest Expenditures	13,049.50	16,231.30	20,439.90	21,132.30	96.7
Transfers to SEEs	370.6	631	885.9	594.6	149
Other Transfers	8,318.50	9,374.70	9,211.10	8,894.50	103.6
Ratios to GNP (%)					
Budget Balance	-7.2	-10.9	-10.3		
Interest Expenditures	11.7	13.8	16.4		
Non-interest Balance	4.4	2.2	6.1		
Net Domestic Borrowing	8.6	12.6	7.5		
Domestic Debt Stock	21.9	29.3	29		

1/ In real 2000 prices, deflated by the wholesale price index (2000 = 100).
Source: Main Economic Indicators, State Planning Organization (www.dpt.gov.tr)

I.2-) Exchange rate policy

The main rationale behind the use of an exchange rate basket as nominal anchor[5] was the "significant and rapid pass-through from the exchange rate to prices both directly through import prices and indirectly through inflationary expectations. In addition to this, one of the main components of risk-premium on interest rates was the uncertainty in nominal exchange rates" (CBRT 2000b). Moreover, a sluggish change in government credibility made a mere formal de-indexation insufficient. Therefore, a clear sign of policy change was required[6].

Kiguel and Liviatan (1992) and Vegh (1992) report, after examining stabilization processes in the Latin American countries, that "stabilization programs that use the money supply as the nominal anchor generally induce the expected Phillips curve result: lower inflation is accompanied by a recession after the program

[5] A nominal anchor is a nominal variable that by policy decision is fixed or set on a predetermined and announced path to stabilize the price level (Mecagni 1995).

[6] For detailed investigations about exchange rate based stabilization programs see Patinkin (1993), Bruno (1991), Fischer (1986), Howitt (1987), Kiguel and Liviatan (1992) and Vegh (1992).

is implemented" Following the literature we can summarize some of the stylized facts about exchange rate based stabilization programs as follows: (i) The inflation rate (measured by the CPI) slowly converges to the rate of change in exchange rates (ii) Generally, economic activity expands with the implementation of the stabilization program; (iii) The domestic currency appreciates in real terms (iv) Trade balances and current account balances deteriorate; (v) Consumption and investment follow the expansion in output. Given these stylized facts, which were already indicating the possibility of a crisis due to the deterioration in the trade and current account balances, and an appreciation of the currency, the disinflation program also included an "exit strategy." Accordingly, exchange rate basket would have been allowed to float within a crawling band after the first 18 months of the program.

The central bank successfully implemented this exchange rate policy until the February 2001 crisis made devaluation inescapable. Until then, the currency has been depreciated along the pre-announced exchange rate basket.

I.3-) Monetary policy

In order to be able to impose the pre-set depreciation, the central bank's rule of monetary expansion was limited only to changes in its foreign asset position in the balance sheet. Other than for short-term fluctuations, all base money was created through the balance of payments. Capital inflows and outflows were not sterilized, so that interest rates would be fully determined by the market. Furthermore, monetary autonomy was constrained by ceilings on net domestic assets, and a floor on international reserves. The aim of the ceiling was to prevent monetary conditions from becoming "too expansionary" because of the potential liquidity needs of the public sector[7].

Figure 1 depicts the developments on the monetary side during the disinflation program. It shows that the central bank successfully implemented the liquidity mechanism until the November financial crisis. Monetary base increased only by about 7.5 percent while the central bank conducted open market operations within the lines of the program.

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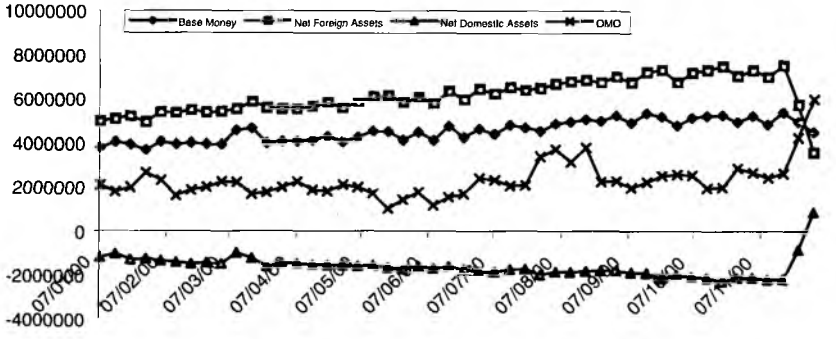
[7] As the OECD (2001) points out "the fact that monetary expansion will depend wholly on foreign inflows means that the program has some of the central elements of a currency board" (p. 22).

Figure 1: Monetary Developments Under Disinflation Program: January 7- November 24 2000



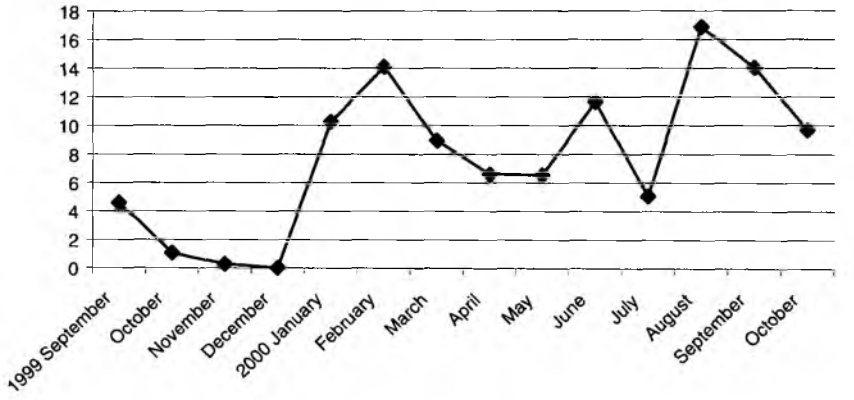
In sum, the data clearly show that Turkish authorities have successfully implemented all three main legs of the program until the crisis without any significant deviation. Neither the outbreak of November crisis nor the collapse of the economy in February 2001 can be attributed to deviating from the IMF-directed disinflation program.

II-) INCREASED FRAGILITY UNDER DISINFLATION PROGRAM

II.1-) Short term interest rate volatility

Throughout 2000, short-term interest rates were highly volatile. Because of the net domestic assets rule of the program, the interest rates were completely dependent on the foreign inflows and shocks. The volatility of the overnight interest rates has shown significant deviations in August and September. The volatility of short-term interest rates was dependent on the volatility of the foreign exchange inflows/outflows. Figure 2 shows the mean values and the standard deviations of the interbank overnight interest rates. If we take the standard deviation of the overnight interest rate as an indication of volatility we observe from the table that the volatility increases first in June and then in August and September.

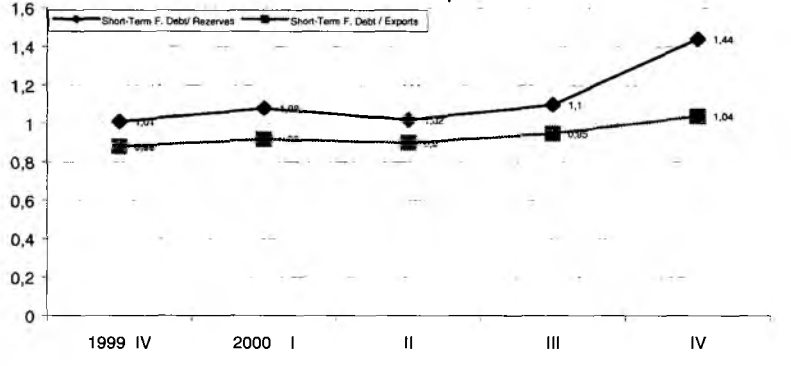
Figure 2: Interbank Overnight Interest Rates: Standard Deviation: September 1999-October 2000



II.2-) Short term foreign debt/foreign exchange reserves

There was a significant increase in the ratio of short-term foreign debt to the foreign exchange reserves of the central bank in 2000, as depicted in Figure 3. The behavior of this ratio was similar to that of Malezia, Philippines and Thailand prior to the Asian crisis, which were respectively 0.61, 0.85 and 1.45 (Bustello 2000). The same figure shows that there is also deterioration in the ratio of short-term foreign debt to exports.

Figure 3: Ratio of Short-Term Foreign Debt to Foreign Exchange Reserves and Exports

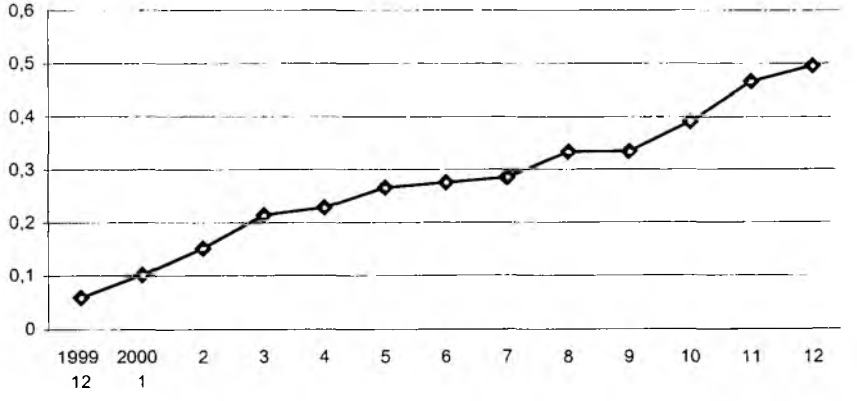


II.3-) Current account *deficit*

Throughout 2000, there was a continuous increase in the ratio of current account deficit to foreign exchange reserves and to GDP. Figure 4 shows that the former ratio at the end of 1999 was about 5.9 percent. However, it climbed to 27.7 percent in June 2000 and then 50 percent in December 2000.

The ratio of the current account deficit to GDP has also shown a tremendous increase since the start of the stabilization program. This ratio began to climb up from 0.7 percent at the end of 1999 to around 3 percent in June 2000. According to Dornbusch (2001), a 25 percent real currency appreciation together with a 4 percent current account deficit/GDP ratio is among the leading indicators of a crisis (p. 3). In terms of the real appreciation of the currency under the pegged exchange rate system the calculations of Uygur (2001) shows that the Turkish *lira* experienced a real appreciation of 10-14 percent in 2000. The same calculations show that the currency appreciated 18 percent in 24 months since the beginning of 1999.

Figure 4: Ratio of Current Account Deficit to Foreign Exchange Reserves



III-) AFTER THE CRISES, STILL "NO ALTERNATIVES"?

The devastating effects of the collapse of the IMF-directed economic policies are accumulating. Annual inflation rate measured as CPI has increased to 68.5 percent in 2001 while real GDP growth rate was –9.4 percent. Only between January and September 14,540 firms and almost 20 percent of the small shop-

keepers declared bankruptcy.[8] Unemployment has started to climb. Net debt of public sector together with net interest payments has also increased (See Table 1). Prior to the crisis, at the end of 2000, the average annual interest rate on domestic debt has been realized as 38.1 percent while the average maturity of the debt was 411 days. In the first debt auction after November crisis, in January 2001, the interest rate was 65 percent and the maturity of the debt was 155 days. With the February crisis, interest rate on Treasury debt skyrocketed beyond 120 percent while the maturity has declined to 30-60 days. This has caused a huge increase in domestic debt.

The failure of the 17th stand-by agreement with the IMF made it obvious that neoliberal IMF-type policies are unable to provide stability to the economy and will rather bring even more devastation. However, this did not prove to be enough to change the neoliberal minds of economic policy makers. The collapse of the stabilization program in February shocked the policy makers who had no back-up plan. After 3 months, a "new" stabilization program has been reinstated with amendments and been approved by the IMF Directors. As we mentioned above, the new program was nothing but a replication of the previous programs and a blend of IMF policies with some technical changes. In the remaining of this paper, we will argue that this claim is wrong. Although we will not provide a full-fledged development strategy, we will show, by discussing the debt problem, public investment, and circuit breakers, that alternative policies are existent and possible.

III.1-) Debt problem

A healthy growth based upon industrialization and real production increase can only be provided together with a radical public finance reform. In this respect, the government should take immediate action about the debt problem. To lessen the cost of domestic debt stock to the financial and the real economy, a so-called "debt consolidation" option should seriously be taken into consideration. With debt consolidation, we mean an arrangement that lengthens the term of the debt and decreases the real interest burden. We cannot see the debt problem simply as "we all owe it to ourselves." The holders of the government bonds who receive the interest payments on debt are usually not the same people as who pay the taxes. Interest payments in Turkey are taking away merely 80 percent of total tax revenues. Thus, the debt problem has also major distributional and political interests behind it.

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[8] *Cumhuriyet*, daily newspaper, 22/10/2001.

To default or consolidate the domestic debt are two policy options for the short-term. In the long-term, we still need a method to finance the budget and cover the debts. Debt monetization is another possible way to finance the budget deficits. Here, monetization is simply defined as "money financing of the public debt," or in other words, the creation and supply of money by the central bank to the Treasury in order to solve the problems of the public debt and the budget deficit (Sollenius 1996: 28). However, in general practice only a very small fraction of the deficit is allowed to be money financed.

One of the advantages of monetizing the government spending is that it minimizes distributional problems. However, it can create inflationary and exchange rate problems that will in turn have effects on distribution of income. There are two main ways in which monetization creates inflationary pressures. The first one is through expectations. As Pollin (1998) indicates "the idea that government spending is being financed through monetary expansion will raise inflationary expectations and thus strong opposition among rentiers, even if the government spending is well targeted and the country has a creditable record with similar such efforts" (452-3). In the context of the Turkish economy, inflationary expectations seem unavoidable unless different regulatory methods such as wage and price controls are brought together with monetization.

Second, and perhaps more important, the inflationary pressure is going to occur when the monetary expansion exceeds the nominal growth rate of output. Sollenius (1996) examines this second possibility and suggests different methods to prevent the increase of money supply more than the increase in the nominal GDP during the period of monetization. Main components of noninflationary monetization can be summed up as follows:

Retention, restoration and extension of fractional reserve banking and counterbalancing monetization by increased reserve requirements: Within the fractional banking system, the reserves are determined fractions of the sum of total deposits held at commercial banks. The minimum reserve ratios for each kind of deposits are determined by the central bank. The required reserves are important for noninflationary monetization because of the need to maintain the difference between high-powered money and face value of the money in the financial system. The central bank can buy government bonds either from the public or directly from the Treasury. In the first case, the central bank increases the monetary base which in turn means an increase in the supply of money. In the second case, the Central Bank directly purchases the debt from the Treasury. When the Treasury spends this money, the public ends up with more demand deposits and the banks with more reserves. The process is such that when the Treasury spends the money, this amount is being transferred to the reserves of the commercial banks. The increase in the reserves of the commercial banks

causes excess reserves, an increase in the monetary base and the money supply with the potential inflationary effects. Raising minimum required reserve ratios for the banking system in a way that the amount of money remaining available to be lent out as credit remains the same can be an effective way of preventing a large increase in the money supply. When different parts of the financial system have different degrees of liquidity, different reserve ratios can be applied. High levels of reserve requirements might be unusual but understandable to avoid possible inflationary pressures.

Direct monetization and direct government spending: First, the central bank should transfer the money to the Treasury in a way that avoids an increase in the reserves of the commercial banks at the Central Bank. Second, the Treasury should spend the money in a way that avoids an increase in the reserves of the commercial banks at the Central Bank. This will obviously require close cooperation between the Central Bank and the Treasury. In the period of monetization the government should not use the Central Bank as its cashier but instead should make its payments through alternative ways such as 'tax and loan' accounts at the commercial banks. In addition, the interest payments on government securities should be made in a direct way avoiding central bank payments. When direct government spending completes monetization, the result is that instead of high-powered money getting into the system and increasing the money supply by the money multiplier times its face value, now the new money increases the money supply by only its face value.

Counterbalancing monetization by open market sales: The open market sales of government bonds will draw a significant amount of high-powered money to the central bank from the reserves of the banks. Thus, the sum of total high-powered money, the monetary base is decreased and hence the money supply shrinks. Of course, the market's ability to absorb increases is government stock should be calculated. Some indirect methods to increase market's absorption capacity include increasing the interest rate on bonds, discounting the price of the security or providing tax concessions. A more direct way is to require the institutions to purchase government debt up to a specified limit or percentage of their assets. Depending on the structure of the financial market, different types of institutions can be required to hold different amounts of government debt.

Counterbalancing monetization by credit controls: Selective credit controls can encourage the productive capacity in planned sectors of the economy while restraining general credit expansion. There can be administrative limits on banks lending to the private sector. Many countries including the most advanced capitalist economies imposed ceilings on various types of credit expansion. Using credit controls will not only help to reduce the inflationary consequences of

monetization of debt but also can be helpful within a more general macroeconomic program of targeting growth in certain kinds of production.

An appropriate combination of these methods can reduce the inflationary consequences of debt monetization for a considerable time. The more difficult step would be in the details of applying these methods to the Turkish economy. In this respect, variables such as the money definition that is to be controlled by the monetary authority, the money multiplier, the limits of open market operations should be carefully evaluated. We are not going to attempt to do this here, but the challenge remains for further research.

III.2-) Public investment and expansionary policies

To overcome the current recession and to provide long-run growth of industrial production and productivity an active expansionary policy is necessary. The easiest way seems to be targeting private consumption through tax cuts. However, given the large budget deficits and the composition of taxes in Turkey, this option should not be considered before reforming the tax system. On the other hand, a private consumption-led expansion in Turkey will not maximize the multiplier and accelerator effects since there is a significant import content of private consumption. In addition, a private consumption-led expansion runs the risk of increasing only demand but not supply and hence contributing to the inflation problem in Turkey.

The second option, private investment-led expansion, seems more viable than private consumption-led expansion to contribute to long term growth. However, the policy tools to induce private investment are weak and mostly indirect. For example, the Central Bank can target the short-term interest rate but this will not necessarily lead to a decline in the long-term interest rate. On the other hand, interest rates are only one of the relative factors determining investment. Recent econometric studies have shown that accelerator and profit/cash flow effects are more powerful than interest rate changes/other cost-of-capital effects (Berndt 1991: Chapter 6)[9]. Using tax incentives to promote private investment is also a weak tool since it can never be predicted whether the tax credits will be used to undertake new physical investment, purchase existing financial assets, or pay stockholders higher dividends.

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[9] On the same issue, see also Fazzari (1993, 1994) and Pandit (1995).

Thus, we are left with public consumption and investment for an expansionary policy. The first advantage of public spending is that the policy makers have the option to minimize the import leakage of the expansion and thus strengthen its multiplier and accelerator effects. A public-investment led expansionary program has the merit of establishing a strong link between short-term expansion and long term productivity growth and sustainability. An infrastructure program on the agricultural sector -irrigation systems, rural road building, improving production and marketing techniques are examples of possible public investment areas. It also reduces the pressures for urban migration. Finally, a public investment program, which lowers supply costs, will also have a favorable effect on private sector expectations.

Of course, one of the first objections to such a policy would be the opportunities for rent seeking and corruption, that is "crony capitalism." This could be avoided by creating broad-based forms of democratic accountability. For example, public investment might initially concentrate on small-scale and labor intensive projects, which create the means for substantial local control. These projects might involve expanding education and health services, or small-scale construction.

III.3-) Circuit breakers

After financial liberalization, the Turkish economy has been subject to speculative capital movements, which impeded growth, and major crises have always been accompanied by massive capital flights. This indicates the necessity of capital controls. Also, a possible debt monetization program has to be accompanied by certain controls on capital movements in order to prevent both financial instability and unwanted currency depreciation. We have indicated above that monetization of debt might be inflationary because of the expectations of the public. Such a policy is also likely to face strong opposition from both domestic and foreign rentiers. Within this environment, controls on short-term capital movements will provide the means to avoid unexpected and unwanted capital outflows. These controls can be in the form of quantitative restrictions on capital outflows.

The objection to this suggestion is that they will reduce the flows of capital to the country. The answer to this argument would be that current system is doing a poor job in terms of transferring non-speculative funds to Turkey. The bulk of the

capital movements are already in the form of short-term and portfolio investment which are subject to high volatility.[10]

In implementing a sustainable expansionary policy in Turkey, another instrument that will act as a stabilizer can be securities transaction tax. First priority of a new tax system should be to tax the unproductive activities. The unproductive activities can be defined as "directly unproductive profit seeking" activities that may be privately profitable but do not directly increase the flow of goods and services (Bhagwati 1982). Securities transaction tax is one example of this type of tax is. This tax would both raise revenue and discourage speculation. The aim of this tax would be to increase the cost of trading financial assets in order to decrease the level of speculative financial activities within the economy. The target of the tax is frequent short-term traders rather than investments for lengthy terms. Pollin et. al. (2001) shows that even if this tax fails to prevent speculation it will be good source of government revenue, which can be used to finance a public investment program.

IV-) CONCLUSION

The November 2000 and February 2001 crises resulted in a deep recession in Turkey. Inflation started to climb, interest rates skyrocketed while unemployment significantly increased. In this paper, we have argued that these crises are the consequences of IMF-directed disinflation program. We demonstrated that the Turkish authorities indeed implemented the program consistent with its targets and this implementation itself increased the fragility of the system. More importantly, we have also showed that, contrary to the "there is no alternative" claim of current economic orthodoxy, there are indeed alternative policies and tools to overcome the problems of the economy and to provide long-run growth of industrial product and productivity. Of course, the question of who, by whose political support, will impose an alternative program needs to be answered by political practice.

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[10] See Crotty (2000) and Crotty and Epstein (1996) for a case for capital controls.

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