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The Rise of Independent Administrative Authorities in Turkey: A Close Look on Sources, Successes and Challenges of this New Institutional Transformation

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ABSTRACT

Turkey has experienced important institutional transformation during the last decades. In particular, it has started with liberal policies of early 1980s. Turkey has abandoned the import substitution policies after a serious balance of payment crisis. Foreign trade regime has been liberalized and export oriented development strategy has been adopted. The main goal has been to create a market based economy integrated with world markets. However, this first wave of institutional change is far from adequate. On the contrary, inadequate regulatory framework at financial sector and widespread corruption as well as bad macroeconomic management has led to crises between 1990 and 2001. Thus, the institutional change towards regulatory state is triggered with those economic crises. In response to these economic crises and the external pressure of global institutions like the IMF, significant legal changes such as liberalization in utilities sectors and restructuring of banking sector have been realized and some independent regulatory authorities have been set up. The Competition Authority was established in 1994 as part of the Custom Union agreement with the European Union (EU). The Banking Regulation and Supervision Agency was established in 1999 to improve the effectiveness of regulation and supervision and to establish an independent decision-making mechanism for the banking sector. The legal infrastructure for the Central Bank's independence was established by amending some articles of the Banking Law in 2001. Telecommunications Authority and Energy Market Regulatory Authority were set up in 2001 prior to liberalization of communications and electricity generation and distribution markets. The implicit logic of all this so-called structural reforms is to create and enhance the market based economy and the associated rationalization of public management in line with it. The Central Bank's independence from the political authorities that is perceived as a vital guarantee for prevention of irresponsible monetary policies, liberalization of electricity, gas, telecommunications and aviation sectors, privatization of large state monopolies at those utilities sector including Turk Telekom, building independent regulatory authorities, …etc are among some of the important changes of this new institutional era. In this paper, I try to discuss the questions why these significant institutional changes have occurred and what the promises realized and shortfalls of these authorities during the last decade in Turkey by conducting a literature survey. I think that after the introduction of second wave of institutional change, macroeconomic stability has substantially improved by creating a new institutional environment based on market mechanism and state as a regulator. Institutional change has been seemed to be successful for avoiding crisis in spite of the global financial crisis. The robustness of banking sector due to the restructuring is crucial for avoiding crises.

On the other hand, new institutional environment is far from perfect. There are some serious risks and deficits. First, legal ambiguities between regulatory agencies may create power struggles and inefficiency. Secondly, having independent regularity authorities and new laws alone does not mean a guarantee for expected effective results. Finally, political class in Turkey is a myopic behaviour and their understanding has very serious short comings. Especially, I argue that the political commitment to support those independent administrative authorities by political elites is limited. I believe that the role of independent administrative authorities and the reorganization of Turkish traditional state structure towards regulatory state will continue to be debated in near future.

I. Introduction

Turkey was faced with four major crises since the early 1990s; in 1994, 1999, 2000-2001and finally the global crisis of 2008-2009. The GDP has shrunk 5.4 percent in 1994, 2.6 percent in 1999, 9.2 percent in 2001, and 4.7 percent in 2008-2009[1]. As Öniş and Şenses (2007: 270) have argued, the combination of fiscal instability and premature capital account liberalization in the absence of an adequate regulatory framework have been largely responsible for the eruption of successive economic crises in 1994, 2000 and 2001. In each of the first three cases, the Turkish government has gone to the International Monetary Fund (IMF) for help. In return, IMF demanded restructuring of domestic economy and pressed for institutional reform. In fact, the sources of this institutional change were a mixture of domestic and external factors that emerged during and in the immediate aftermath of the 2000-2001 economic crises. I argue that the institutional transformation experienced in the late 1990s and early 2000s has contributed to economic prosperity during last decade while there are serious challenges.

In response to these economic crises and the external pressure of global institutions like the IMF, significant legal changes such as liberalization in utilities sectors and restructuring of banking sector have been realized and some independent regulatory authorities have been set up. The Competition Authority was established in 1994 as part of the Custom Union agreement with the European Union (EU). The Banking Regulation and Supervision Agency was established in 1999 to improve the effectiveness of regulation and supervision and to establish an independent decision-making mechanism for the banking sector. The legal infrastructure for the Central Bank's independence was established by amending some articles of the Banking Law in 2001 (Eroğlu and Eroğlu, 2010: 130). Telecommunications Authority and Energy Market Regulatory Authority were set up in 2001 prior to liberalization of communications and electricity generation and distribution markets.

The institutional transformation in Turkey was not confined to establishing independent regulatory authorities and included other developments such as various legal changes like significant reduction in corporate tax rate. However, the scope of this study is limited with the independent regulatory authorities since they represented by far the most important and wide ranging developments in this sphere during the two decades under study. Following the market liberalization that took off in early 1980s, substantial steps were taken to create a regulatory state similar to those in EU and USA during these two decades. Therefore, it is

[1] The rates of change in GDP for first three crises are calculated by using GDP values at 1987 prices. The rate of change in GDP for the last crisis is calculated by using GDP values at 1998 prices. All data are obtained from TUİK website.

important to understand this transformation and assess its effects on economic growth performance of the country.

The aim of this paper is to underline the significance of the institutional change in Turkey as well as its limitations in Turkey. There are several studies that may be relevant. However, some of them are discussing the issue partially and the other for mainly focusing on solely restructuring of banking sector. I think that we need a broader perspective. It seems that policy makers do not appreciate the issue adequately. The regulatory state, independent regulatory authorities and its implications are quite new subjects for most of policy makers in Turkey. This is because there are several studies on the issue that I have found. I believe that this paper will provide a good starting point to the issue for interested one.

The organization of the paper is as follows: In Section 2, after this introduction, a brief literature survey will be conducted on institutions and the regulatory state. This is followed in Section 3 by a discussion of the evolution of institutional environment that we have today. It will be focused on establishment of independent regulatory authorities. In Section 4, the positive effects of institutional change in early 2000s are discussed. Furthermore, the potential problems with new existing institutional environment have been considered. Finally, last section includes a brief summary and conclusions.

II. Institutions, Growth and the Regulatory State

What are the institutions?

According to North (1990: 3) institutions are the rules of the game in a society simply[2]. In other words, they are the humanly devised constraints that shape human interaction. Institutions may be both formal and informal. For instance, a particular law is a formal institution and conventions and codes of behavior are informal institutions. North suggests that institutions reduce the uncertainty by providing a structure to everyday life. In this paper, when I use the term institution, it will imply formal written codes.

Institutions are mostly determined at national level. Indeed, they are main policy variables that policy makers can design at national level. For example, intellectual property rights law, competition law, tax law, other financial regulations may provide right and wrong incentives for economic actors depending on design.

There is a two way relationship between organizations and institutions. For example, the structure and effectiveness of competition authority, a national planning organization, a national science agency…etc. is influenced by institutions mainly. In some cases, they owed their existence to these institutions directly. Likewise, some organizations may affect and/or create new institutions with their decisions or secondary legislation. For example, independent regulatory authorities are set up regarding to national legislation or laws. At the same time, via secondary legislation, decisions and setting standard they create new rules and constraints for economic actors.

[2] There is also a wider definition suggested by Grief for institutions such that institutions are a system of rules, beliefs and organizations (Helpman, 2004: 115). In other words, organizations are institutions as well. This definition of course is different from North's. However, I prefer to follow North's approach.

Rodrik and Subramanian (2003: 32) suggest a classification of institutions with respect to their functions. In this framework, certain institutions protecting property rights and ensuring contacts are market creating institutions since without them there will be probably no market at al. The other types are market regulating, market stabilizing and market legitimizing institutions. Market regulating institutions are those to regulate market failure sourced from externalities, economies of scale and scope and imperfect information. They give regulatory authorities in telecommunications, transport and financial services as examples[3]. Market stabilizing institutions are those providing low inflation, minimizing macroeconomic volatility and avoiding financial crises such as central banks, exchange rate regimes and fiscal rules. Finally, market legitimizing institutions are those providing social protection and insurance, involving redistribution and managing conflict such as pension systems and unemployment insurance schemas. Also Rodrik (2000) mentions about market and non-market institutions in spite of accepting the difficulty of clear separation between them completely. Moreover, he argues that democracy is a meta-institution for building good institutions since it absorbs local knowledge in institution building process in a better way (Rodrik, 2000, 19).

Institutions and economic growth

Neoclassical economic growth model or Solow-Swan model implies that per capita income in poor countries grows faster than per capita income in rich countries such that all economies converge the same per capita income (Barro and Sala-i-Martin, 2004: 1). In reality, this is not the case. Some countries experience very low growth rates and per capita income for long periods of time. Hence, there are some rich countries, middle-income countries and extremely poor countries. The accumulation of physical and human capital explains only small part of the variation across countries in income per capita and its rate of growth. Solow residual or the change in the total factor productivity[4] or technological change explains the remaining part. Indeed, differences in total factor productivity levels cause more than half of the cross-country variation in income per capita (Helpman, 2004: 111). Furthermore, technological and institutional factors also affect the rate of accumulation of these capital inputs as well as knowledge that affects technological progress.

Institutional approach for economic growth suggests that economic and political institutions affect the incentives to accumulate and to innovate significantly. According to Helpman (2004: 139);

> "*Countries that start with similar endowments can follow different developmental paths as a result of differences in institutional structures, because institutions affect the incentives to innovate and to develop new technologies, the incentives to re-organize production and distribution in order to exploit new opportunities, and the incentives to accumulate physical and human capital. For these reasons institutions are more fundamental determinants of economic growth than R&D or capital accumulation, human or physical.*"

[3] Therefore, Rodrik and Subramanian admit organizations as institutions that is different from North's understanding..

[4] Total factor productivity is a concept that measures change in productivity by taking account of more than one factor of production. The determinants of total factor productivity change can be decomposed into components such that change in the total factor productivity can be explained by technical efficiency change, technical change and scale efficiency change (Coelli et al, 1998).

For instance, without the protection of property rights, accumulation of capital, land and investment in R&D can't take place. Therefore, institutions are vital for economic development.

Also Helpman (2004: 112-113) mentions some other interesting arguments. Institutional design embodies a fundamental conflict between the goal of controlling disorder and the goal of limiting the power of the executive since governments can also themselves infringe on private property. It implies a tradeoff for control of business and there are four common strategies of such control. These are private orderings, private ligation, regulation and state ownership. In this tradeoff, institutions and politics are inseparable. Helpman (2004: 113) argues that "*Together they determine the ability of countries to accumulate, to innovate, to adopt new technologies, and to reorganize in the face of technological change. And they shape the economic policies that either promote or hinder growth.*"

There are several economic models trying to understand economic growth[5] (Barro and Sala-i-Martin, 2004: 16-21). Most of them are following a mathematical approach like Solow. However, Institutionalist school of growth follows a non-mathematical path. Therefore, supporting their arguments with econometric analysis is rather difficult[6]. Furthermore, institutions cannot be copied wholesale from one society to others and they require a long time span to develop (Baumal et al, 2007: 40). This is also another obstacle for empirical testing of the hypothesis. However, the difficulty of empirical testing should not diminish the importance of Institutionalist arguments.

Nevertheless, I have accessed several empirical studies on institutions and growth. Rodrik (1997) analyzes determinants of growth differences among East Asian countries by employing econometric methods. In particular, he is interested in whether accumulation of capital is important in growth rather than total factor productivity change or not. Interestingly, he found that institutional factors are largely explaining the growth differences among the countries. According to Hall and Jones (1999) the differences in physical capital and educational attainment can only partially explain the variation in output per worker. Instead they claim that the disparity in productivity of labor can be explained by differences in social infrastructure or differences in institutions and government policies. Also social infrastructure is endogenous to the system and determined historically by location.

Rodrik et al (2002: 4) have conducted a study to explain why some societies have managed to accumulate and innovate more rapidly than others by suggested answers, namely geography, integration, and economic institutions. While the question seems simple, there are some serious challenges[7]. For instance, there is a need to find good instruments for integration and institutions. Rodrik et al use a composite indicator for institutions to capture the property rights and the rule of law depending on earlier studies of other researchers. They use the ratio of trade to GDP for integration variable. The dependent variable is GDP per capita on a PPP basis for 1995. They have compiled two data sets with 80 and 140 countries. In short, they

[5] For example, nowadays endogenous growth model is popular. Unlike the Solow-Swan model, endogenous growth theory assumes technology is endogenous. In other words, technological change is determined in the model not given from exogenously. Knowledge accumulation and innovation is the main themes. Hence, it provides a model that economists can analyze economic growth and it's relationships with incentives, organizations and institutions that shape knowledge accumulation (Aghion and Howitt, 1999: 4)

[6] The interested reader may see Aron (2000) for a review of problems at econometric studies on growth and institutions.

[7] Rodrik et al (2002) also try to address the problem that there is also endogenity problem with dependent and independent variables.

have found that institutions have both positive and significant effect on income. Indeed, their evidence supports that institutions are important determinants of both accumulation and productivity so that institutions have a larger impact on physical accumulation quantitatively than on human capital accumulation or productivity.

Glaeser et al (2004) argue that instead of political institutions causing economic growth, growth and human capital accumulation cause institutional improvement. In other words, according to Glaeser et al, the causality between institutions and growth is reverse. They employ an OLS and instrumental variable techniques by using previous studies data sets described above. Their evidence suggests that human capital is more important than institutions and most indicators of institutional quality are unsuitable conceptually.

What is regulation?

There are various meanings of regulation depending on different countries and time (Jordana and Levi-Faur, 2004: 3-4). For the narrow meaning, regulation is defined as specific form of governance involving a set of authoritative rules accompanied by an administrative agency in order to monitor and to enforce compliance. For broader meaning, regulation is defined as governance in a general sense involving the aggregate efforts by state agencies to steer the economy. For broadest meaning, regulation is defined as all mechanisms of social control. Prior to 1980s, regulation has narrow meaning at USA and broader meaning outside USA. After 1980s, regulation implies its narrow meaning in general.

What is regulatory state?

The regulation approach with independent regulatory authorities has been more popular since late 1980s. This trend sparks usage of term of regulatory state among some researchers and policy makers. Jordana and Levi-Faur (2004: 8) have summarized the debate of the existence of regulatory state and if exists then what the regulatory state is. From this discussion, it is understood that the term regulatory state implies modern states that are giving more emphasis on the use of authority, rules and standard-setting rather than public ownership, public subsidies and direct provision of public goods.

Majone (1997: 12-13) has made a description of emerging regulatory state. According to him, the main function of regulatory state is correcting market failures rather than redistribution and macroeconomic stabilization. The instrument to achieve its goals is rule making rather than taxing and spending. The main area of conflict is to review and control of rule making rather than budget allocation process. The characteristic organizations are parliamentary committees, independent authorities, commissions and tribunals. For the prevailing form of state, they are parliament, ministerial departments, nationalized firms and welfare services. Key actors in the economy are single issue movements, regulators, experts and judges rather than political parties, civil servants and corporate groups. The politic style is rule-bound and legalistic rather than discretionary and political culture is pluralistic rather than corporatist. Finally, political accountability is indirect rather than direct.

Where, When, why?

According to neoclassical economics, social welfare is maximized under perfect competitive markets in the long run and optimum resource allocation is achieved. This point is called Pareto optimum or no one is better off without making another individual worse off. In other words, equilibrium prices in the market lead to efficient use of resources in the long run. On

the other hand, depending on the market structure there are some cases such that social welfare may not be maximized. These cases are called as market failure. The reasons for market failure may be various such as huge fixed and sunk costs that lead to imperfectly competitive markets, network externalities, asymmetric information and public goods.

There have been different approaches to deal with market failure. Those approaches have been changing depending on the time and country. For instance, in the United States, a system has evolved based on market regulations by independent boards[8]. In the case of European countries, those sectors have been left to public monopolies until 1980s (Melody, 1997). The rise of the neoliberal agenda associating with crisis in late 1970s in the capitalist world has caused to change in this approach. The neoliberal critics have focused on state ownership and constructing monopolies. Then the Thatcher government in the United Kingdom (UK) has made economic reforms in line with neoliberal critics. In other words, privatization of state monopolies and the liberalization of infrastructure sectors started in the UK in early 1980s.

The reasons for privatization and liberalization are various. Leibenstein (2000) suggests that there exists inefficiency called 'X' in the firm since the management can have other objectives apart from profit maximization such as maximization of organization or budget. To eliminate this inefficiency is an argument in favor of privatization. In this context, Vogelsang (2002: 8) suggests that the reason for privatization in UK was the failure of previous public enterprise reforms. Also, the major reason which allows such a significant shift for competitive market structure is the technical progress (Crew and Kleindorfer, 2002: 7). Technical progress has caused a decrease in scale and scope economies in the utilities sector. Then opening these markets to competition has provided great opportunities for static and dynamic efficiency gains.

Despite the technical progress mentioned above, fixed and sunk costs have been still important parts of total costs in utilities sector[9]. Then if the former state monopolies in utility sectors are privatized then they will become private monopolies not competitive firms. Some kind of state intervention is necessary to obtain Pareto efficient outcomes. The solution is the re-regulation with independent regulatory authorities by following the USA example[10]. The regulation with independent administrative authorities approach has been adopted by other countries. In other words, liberalization and privatization in utilities sector has started mainly in the UK based on the USA example. Then this trend has gradually extended to most of countries in the Organization for Economic Co-operation and Development (OECD).

How does it diffuse to the developing world?

There may be various explanations for rapid adoption of liberalization, privatization and regulation by independent regulatory authorities by developing countries. In the case of a particular sector, according to Saunders et al (1994) these events, coupled with the widespread globalization and increased information content of economic activity, led developing countries from the mid-1980s on to consider a range of options for reforming the telecommunications sector with the aim of helping overcome long-standing constraints on development. Also he noted that by 1990, some forty developing countries had completed,

[8] In order to obtain comprehensive information, please look at Brock (2002)

[9] According to Melody (1997), 55 percent of total costs are fixed costs for a typical telecommunications firm in fixed telephony market.

[10] The USA has 50 states that all follow their own regulatory policies. These experiments provide precious knowledge and learning opportunities for interested economists and policy makers. In fact, economists and policy makers in the EU have designed their regulatory policies based on this knowledge (Vogelsang, 2002: 8).

were embarked on, or were actively preparing major reforms of the telecommunications sector.

In addition, once regulatory state approach has been adopted by core developed countries, and then the Breton-Woods organizations, the IMF and the World Bank (WB), have also adopted it. When developing countries apply to the IMF, then IMF's financial help is conditioned to implementation of reform package in line with privatization, liberalization and regulation of Structural Adjustment Programs.

III. New Institutional Transformation in Turkey

Turkey has experienced important institutional transformation during the last decades. In particular, it has started with liberal policies in the early 1980s. Turkey has abandoned the import substitution policies after a serious balance of payment crisis. Foreign trade regime has been liberalized and export oriented development strategy has been adopted. The main goal has been to create a market based economy integrated with world markets. To support this transformation there has been considerable structural change in Turkish economy since the early 1980s. However, a more visible shift has been occurred due to economic crises of 1990s and 2000.

In Turkey, crises between 1990 and 2001 are mainly caused by inadequate regulatory framework at financial sector and widespread corruption as well as bad macroeconomic management (Beris and Gurkan, 2001: 5). In fact, the institutional change towards regulatory state is triggered with the economic crises in 1990s and 2001 particularly. Also they have altered the power balance in the country in favor of regulatory state. The crisis of 1994 and 2000 are actually banking sector crisis (Baum et al, 2010: 2711). The signs of inadequacy of regulatory environment were clear as early as 1982. According to Baum et al (2010: 2711) substantial number of brokerage houses had collapsed due to fierce competition and weak regulatory enforcement in Turkey.

In general, the financial deregulation and capital account liberalization without a proper regulatory framework has caused to fragility of financial sector and economy. This fragility has coincided with highly corrupted and poisonous political structure in Turkey. The political environment in the country poisoned with nepotism and corruption which may be called even crony capitalism. The implication of this environment for banking sector was a high degree of politicization. According to Bakır and Öniş (2010: 82), "*Banking became such an integral part of politics that it has been at the centre of the establishment and collapse of governments in Turkey … As a result of politicization, the state banks had largely become instruments for channeling deposits into political rent distribution.*"

From financial perspective, the high degree of politicization of state banks naturally implies inefficient allocation of financial resources. For instance, the state banks have been abused to make to provide loans at lower than market interest rate for political purposes. The benefiters have been corporations and individuals with linkages of government as well as farmers before election periods. The so called 'duty losses' have reached unbelievable levels. For example, the amount of 'duty losses' of the two largest state banks increased from 3 percent of GNP in 1993 to about 12 percent of GNP in 2000 (Bakır and Öniş, 2010: 82). There is also another issue relating to state banks and their relative weight in the banking sector. Traditionally, state banks have dominated the Turkish banking sector. In general, state banks are inefficient with

respect to private-sector counterparts, however, the share of state banks on total bank assets has fallen from 46.4 percent in 1994 to 31.2 percent in 2007 (Baum et al, 2010: 2712-2718)[11].

On the other hand, private banks have also been faced with distorted incentives. In order to maximize profits, they prefer to finance government debt rather than lending credits to business firms since thanks to bad macroeconomic management and high amount of losses of state owned enterprises there is a high government budget deficit that means a very high real rate of return on government debt. According to the Turkish Government in 1999 "*Public sector debt-including the so-called duty losses of state banks and the net asset position of the central bank- is projected to increase from 44 percent of GNP at end-1998 to 58 percent of GNP at end-1999.*" (Treasury, 1999: 4th article). Furthermore, many private banks owned by a family industrial conglomerate provide cheap loans to other firms in the family. To sum up, all these factors have contributed to inefficient financial sector. Hence, this inefficient financial sector couldn't support economic growth by financing productive investments. Besides, the rent seeking coalition between politicians, bureaucrats and businessman becomes a great obstacle to the emergence of the regulatory state (Bakir and Öniş, 2010: 84).

The crisis of 2001 has diminished the power of domestic rent seeking coalition. In other words, due to the crisis a new domestic balance of power has occurred in favor of institutional transformation. In fact, the framework of structural reforms has been ready well before the 2001 crisis. The coalition government under the Prime Minister Bulent Ecevit (the 57th government) has started the Stabilization Program initially as well as it has enacted legislation in order to restructure the banking sector and social security system. The incentives for reforms have been sourced from international developments and their commitment for reform was not strong. (Berkis and Gurkan, 2001: 7). The most decisive factors are external: the IMF, WB and EU. During the 57th government period, EU has recognized Turkey as a candidate country and Turkey has signed a new Stand-by Arrangement with the IMF.

In the process of EU membership, Turkey has to comply with EU laws and regulations. There are two main conditions, namely the Copenhagen Criteria and the European Monetary Union Criteria. In this framework, it is required from Turkey that there should be a functioning market economy and the capacity to cope with competitive pressures and market forces in the EU. In particular, they mean prohibition of direct public sector financing by the central bank, prohibition of privileged access of the public sector to financial institutions, independence of the central bank and liberalization of capital movements. Therefore the adoption of EU's Acquis Communitaire means for Turkey a substantial structural transformation hand in hand with significant institutional transformation. Harrison et al (1997: 868-869) argue that the Customs Union with the EU would create difficulties for inefficient state-owned enterprises due to increase in competitive pressures on them and they give Spain as an example for diminishing role of state in domestic economy after accession. Furthermore, they suggest reducing the role of state with respect to subsidies and ownership of production for Turkey. Indeed, Turkish Government (57th government) has also used the argument as a reason for economic reforms that higher growth rates must be sustained over time in order to close the income gap between Turkey and EU countries in the Letter of Intent submitted to IMF (1999: 2nd article).

Likewise, the Stabilization Program has included a reorganization of the social security system, agriculture, and banking sector as well as the privatization of some public enterprises in order to reverse the unsustainable public debt dynamic (Treasury, 1999: 4the article). The

[11] For an analysis on efficiency of Turkish banking industry, one may see Isik and Hassan (2002).

targets have been to reduce both inflation and real interest rate. In this framework, privatization has been seen as an immediate source of substantial financial resource to reduce the public debt (Treasury, 1999: 23th and 48th articles). However, there is also an expectation of economic efficiency improvement via privatization. The telecommunications sector and electricity sector are selected sectors for privatization and liberalization. Furthermore, since these sectors have high fixed and sunk costs, some regulatory intervention is necessary to prevent private monopolies. According to the Letter of intention sent to IMF, the government has engaged banking sector reforms (1999: 52th article). Especially, the government admits state banks' role on public deficit vaguely and it implies privatization of them ultimately (1999: 58th article).With this stabilization program and promises, substantial amount of credit has been supplied to Turkey by the IMF.

On the other hand, the political commitment to so called structural reforms has not been very much. There has been a resistance of some cabinet members to structural changes particularly for privatization of state banks (Beris and Gurkan, 2001: 11). In fact, the planned reforms would undermine the interests of rent-seeking coalition. After the liquidity squeeze in financial markets and the dispute between the Prime Minister Bulent Ecevit and the President Ahmet Necded Sezer, an economic crisis has occurred and the Stabilization Program has collapsed.

This crisis has also diminished the public confidence on the political class in power to solve economic problems and Kemal Derviş, the Vice-President of the World Bank at that time, has been invited to Turkey as an economic savior. According to Beris and Gurkan (2001: 13), he has been invited "*...due to the apparent backing by the American Administration and the influential international institutions to this appointment*". A new coalition in favor of regulatory state and structural reforms has forged. The elements have been both domestic and international. For example, TUSIAD had supported Kemal Dervis and according to Beris and Gurkan (2001: 13-14) "*Meanwhile, multilateral financial institutions and the United States Treasury made it absolutely clear that Turkey needed to undertake serious structural changes to receive further loans*".

A new Stand-by Agreement was signed with IMF in 2002 in order to be implemented between 2002 and 2004 period. When one compares the Letter of Intent dated 1999 and the new one dated 2002, he will see that the latter is more clear and consistent though it has been built on previous reforms inherited in the Letter of Intent dated 1999. The primary two goals have been defined as to reduce the chronic and persistent inflation and to overcome the macroeconomic instability which has constrained economic growth (Treasury, 2002: 1th article). The ultimate goal is to prevent future crises and obtaining sustained noninflationary growth. Again, the reforms are justified by the goal of EU membership (Treasury, 2002: 6th article). The suggested policies are tight fiscal policy, inflation targeting under a floating exchange rate regime, completion of banking sector restructuring and enhancing the role of the private sector in the economy by accelerating privatization especially (Treasury, 2002: 9th article).

The implementation of the reforms was not a straightforward task. There have been important resistances from various sources. For example, even a government member of that time, namely Enis Oksuz as the Minister of Transportation, has opposed to privatization of Turk Telekom. Naturally, this has created a dispute between Kemal Dervis and Enis Oksuz. The external actors IMF and WB were decisive to solve this dispute in favor of Kemal Dervis. The IMF Executive Board has postponed the release of the second part of the agreed loan and after that the WB has postponed to release $1.7 billion loan. In the end, government has reached a

compromise[12] and the IMF and WB have released the loans and Enis Oksuz was forced to resign (Beris and Gurkan, 2001: 15-16).

The implicit logic of all this so-called structural reforms is to create and enhance the market based economy and the associated rationalization of public management in line with it. The actual roots of crises in Turkey as described briefly above previous rent seeking behaviors of economic and political actors. The results have been severe persistent inflation and unsustainable amount of public debt. In fact, public sector deficits have been financed by the inflation tax (Rodrik, 1990: 2). The neoclassical prescription suggested by external actors is to create a new institutional environment based on market mechanism and state as a regulator. For instance, the structural reforms have included abandonment of price supports and cheap credits to agricultural sector which were the prime source of 'duty losses' and privatization of state enterprises that were another major source of public sector deficit. Besides, the independence of central bank means in practice the prevention of financing 'duty losses' accumulated at state banks by printing money that means high inflation. Finally, the suggested privatization of state banks is the ultimate panacea to limit the political actors' unwanted previous behaviors.

Actually, the costs of banking crisis in Turkey were enormous and the results of the crises were devastating for the whole economy. According to Bakir and Öniş (2010: 92) the financial costs of the crisis in 2001 had been $ 47.2 billion and this cost was equal to 32 percent of GDP in 2001. This cost includes injection of $ 23 billion to banks for recapitalization in order to eliminate 'duty losses' of about $ 27 billion. The political cost was also enormous for the political class in power at the crisis. After the 2002 election, according to Bakır and Öniş (2010: 89) "*Nine out of ten political parties of the previous parliament were pushed out of the legislature by the electorate, whilst for the first time in forty years there was only one opposition party in the new parliament.*" The winning party, the Justice and Development Party, has implemented the reform program developed by the pro-regulation coalition.

The immediate responses to the crisis are also massive amendments in existing legal texts or enactment of new laws such as the Law on Intellectual Property Rights. Those changes have defined new rules for economic actors. The Central Bank's independence from the political authorities that is perceived as a vital guarantee for prevention of irresponsible monetary policies, liberalization of electricity, gas, telecommunications and aviation sectors, privatization of large state monopolies at those utilities sector including Turk Telekom, building independent regulatory authorities, …etc are among some of the important changes of this new institutional era.

The independent regulatory authorities are organizations that are new for Turkish administrative tradition. Nevertheless, they have started to play an important role in the Turkish economy. They are also creator of new rules and regulations via creating secondary legislations, setting industry standards and by discretionary decisions on disputes. Below, some of them are discussed more comprehensively.

Capital Markets Board of Turkey was established in 1981 in order to provide effective regulatory framework for developing capital markets. It might be called a forerunner of independent regulatory authorities. Then the Higher Board of Radio Television and

[12] Compromise seems to have involved the appointments of four of the seven Telecom Executive Board members by Enis Oksuz, two by Kemal Dervis and one by Bulent Ecevit.

Competition Authority were established in 1994 as independent regulatory authorities. Those are the first independent regulatory authorities. Today there are mainly nine independent regulatory authorities in Turkey:

- Capital Markets Board of Turkey (CMB),
- Radio and Television Supreme Council (RTSC),
- Competition Authority (CA),
- Banking Regulation and Supervision Agency (BRSA),
- Information and Communications Technology Authority (ICTA),
- Energy Market Regulatory Authority (EMRA),
- The Turkish Sugar Authority (SA),
- Tobacco and Alcohol Market Regulatory Authority (TAMRA),
- Public Procurement Agency (PPA).

However, we are not going to focus on RTSC[13], SA[14] and TAMRA[15], which are not very important for our goals in this paper. The remaining organizations are briefly discussed below:

Capital Markets Board of Turkey (CMB)

The CMB was established in 1981 by Capital Market Law No. 2499. This law provides the legal framework for the establishment of an official capital market. The task of the CMB is to establish capital markets and provision of regulatory framework in order to protect the rights of investors. The CMB has seven members who are appointed for six years by the Council of Ministers[16].

When CMB was established in 1981, the status of it regarding the Turkish administration system was an entity "related" to the Ministry of Finance. Therefore, since many of its actions were dependent on approval of Ministry of Finance, it couldn't be said that it was a completely independent authority similar to one in Europe or USA. However, with two amendments of Capital Market Law No. 2499 that were enacted in 1992 and 1999 it has become more independent[17]. Current status is that it is "affiliated" with a Ministry of State within the Prime Ministry.

Competition Authority (CA)

[13] RTSC was established in 1994 to regulate the broadcasting market following liberalization. Prior to 1994, there had been a state monopoly in radio and television broadcasting in Turkey. The responsibilities of RTSC are to allocate frequencies of wireless spectrum to the broadcasting companies, to regulate the competition in the market and to control the content broadcast.
http://www.rtuk.org.tr/sayfalar/IcerikGoster.aspx?icerik_id=80775e05-caec-4a48-bac5-39fd6375da3b

[14] SA was established and started its operations in 2001 by the Sugar Law No. 4634. The aim of the Sugar Law is to satisfy domestic sugar demand by domestic production and when necessary to regulate the sugar industry for exportation. Clearly, this task is unusual. In fact, the existence of SA is peculiar to Turkey.
http://rega.basbakanlik.gov.tr/main.aspx?home=http://rega.basbakanlik.gov.tr/eskiler/2001/04/20010419.htm&main=http://rega.basbakanlik.gov.tr/eskiler/2001/04/20010419.htm

[15] TAMRA was established in 2002 by the Law No. 4733 in order to regulate the tobacco, tobacco products, and alcoholic beverages markets. TAMRA has also responsible for developing and implementing policies to reduce consumption of tobacco and alcoholic beverages.
http://rega.basbakanlik.gov.tr/main.aspx?home=http://rega.basbakanlik.gov.tr/eskiler/2002/01/20020109.htm&main=http://rega.basbakanlik.gov.tr/eskiler/2002/01/20020109.htm

[16] http://www.spk.gov.tr/indexcont.aspx?action=showpage&menuid=0&pid=0&submenuheader=-1

[17] In particular, one should understand independence as administrative and financial independence. However, independence issue has been explicitly stated in laws for other independent regulatory authorities.

Turkish Competition Law No. 4054 was enacted in 1994 and the CA was established to enforce Turkish Competition Law. The goal of the CA is to facilitate and to protect competition in markets. While the CA was established in 1994, the members of Competition Board were not appointed until 1997.

The Competition Board has seven members who are appointed for six years by the Council of Ministers[18]. According to Turkish Competition Law, the CA has an administrative and financial autonomy, it is "related" with the Ministry of Industry and Trade, and it is independent in fulfilling its duties. In fact it is explicitly stated in the Law that "*No organ, authority and person may give commands and orders to influence the final decision of the Authority.*" [19]

Turkey and the EU created a customs union in 1996. In order to achieve this, it was required that Turkey must implement the competition law and policies of the EU effectively. In this framework, the enactment of the Turkish Competition Law should be seen as a fulfillment of that requirement and so the establishment of the CA in particular.

***The Banking Regulation and Supervision Agency (BRSA)*:**

Within the efforts of comprehensive restructuring of the Turkish banking industry, Law of Banking No. 4389 was enacted in 1999. The BRSA was also established in 1999 to regulate the industry. However, provision of independence has been achieved with some legal amendments in the Law of Banking. The BRSA has administrative and financial autonomy[20]. Actually, Turkey has carried out the promises on a standby agreement in 1999 with the IMF. Interestingly, however, in 2003 government forced the head of BRSA to resign. Besides, a new law[21] enacted in 2001 that amended Law of Banking contained a stipulation terminating the terms of the existing members of BRSA. The experience of BRSA is illuminating to understand what independence means in Turkey.

Currently the BRSA has seven members who are appointed for six years by the Council of Ministers. The Chairman and Vice Chairman are appointed from the Board members by the Council of Ministers directly.

***Information and Communications Technology Authority (ICTA*)**

The liberalization in Turkish telecommunications industry started partially in April 1998 with the granting of two GSM 900 licenses (given via the concession agreements) to Turkcell and Telsim. The establishment of ICTA to regulate the Turkish telecommunication industry followed an official undertaking by the Turkish government to privatize its state-owned monopoly telecommunications operator and liberalize its telecommunications market as part of a credit agreement with the WB in 2000. Previously, the Ministry of Transportation and partly by Türk Telekomünikasyon A.Ş., the state owned monopoly operator, were responsible to regulate the industry.

[18] http://www.rekabet.gov.tr/index.php?Sayfa=sayfaicerik&icId=165
[19] Article 20. http://www.rekabet.gov.tr/index.php?Sayfa=sayfaicerik&icId=165
[20] Article 82 of the Law of Banking No. 5411.
[21] The Law No.4672 of May 2001 that is published at Official Gazette No.24416 on May 29, 2001. http://rega.basbakanlik.gov.tr/main.aspx?home=http://rega.basbakanlik.gov.tr/eskiler/2001/05/20010529.htm&main=http://rega.basbakanlik.gov.tr/eskiler/2001/05/20010529.htm

Law No. 4502 dated January 27, 2000[22], which boosted the structural reform from monopoly towards a liberalized industry, set forth the date of liberalization for fixed line telephone services as 31.12.2003[23]. That Law, amending the Wireless Law[24] and Telegraph and Telephone Law[25], which were the two basic telecommunications laws in Turkey, constituted the baseline not only for opening telecommunications infrastructure and services to competition, but also for regulating the industry, e.g. by means of interconnection and roaming obligations, pricing rules, dispute resolution processes. To fulfill these duties, a regulatory body called "Telecommunications Authority" (TA) was established in 2000. The Law No. 5809 or Electronic Communications Law[26] amended the Wireless Law in 2009 so that "Telecommunications Authority" term has changed to "Information Communications Technology Authority".

According to Electronic Communications Law, ICTA has administrative and financial autonomy. According to the article 67 of Electronic Communications Law, "*The Authority is independent in fulfilling its duties. No organ, authority and person may give commands and orders to influence the final decision of the Authority."* The Information and Communications Technology Board has seven members who are appointed by the Council of Ministers.

The Energy Market Regulatory Authority (EMRA):

Similar to the telecommunications sector, the IMF has conditioned the liberalization of electricity and natural gas sectors (Treasury, 1999: 48th article). The obligation naturally consists of the establishment of independent regulatory authorities for respective markets. Although the Electricity Market Regulation Authority was created by the Electricity Market Law No. 4628 in February 2001, a joint regulator, namely EMRA, was established for both electricity and gas markets by the Law No. 4646. The Board of EMRA has seven members who are appointed by the Council of Ministers.

Public Procurement Agency (PPA)

PPA was established by the Public Procurement Law No. 4734 in 2002[27]. The main duty of PPA is to design and to develop the principles and procedure for public procurement process. Public Procurement Board has ten members who were appointed for five years by the Council of Ministers. PPA also enjoys financial and administrative autonomy as well as independence.

The public procurement policy of EU is effective to adopt such legislation as well as establishment of PPA. A public procurement policy should be non discriminatory and transparent regarding EU legislation in order to prevent rent seeking behaviors and corruption. Although EU does not condition establishment of PPA as an independent regulatory authority, Turkey has promised to the IMF to establish PPA.

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[22] The Law No. 4502, http://www.tk.gov.tr/eng/duzenmaineng2.html.

[23] In 1998 the Turkish government had committed itself, in accordance with the World Trade Organization guidelines, to liberalize its fixed-line telephone network and services no later than the end of 2004. Law No. 4502 has shifted the liberalization timetable to the end of 2003 to accelerate the process (Akdemir et al, 2005: 152).

[24] The Wireless Law No. 2813, http://www.tk.gov.tr/eng/pdf/5681.pdf.

[25] The Telegraph and Telephone Law No. 406, http://www.tk.gov.tr/eng/pdf/ 406.pdf.

[26] http://www.tk.gov.tr/eng/duzenmaineng2.html.

[27] The Law No. 4734
http://rega.basbakanlik.gov.tr/main.aspx?home=http://rega.basbakanlik.gov.tr/eskiler/2002/01/20020122.htm&main=http://rega.basbakanlik.gov.tr/eskiler/2002/01/20020122.htm

IV. Discussion

The effects of institutional change

Actually, the significant changes in institutional settings have started in 1980s as a neoclassical response of crisis of previous import-substitution industrialization regime (Senses, 1991: 221-222). As expected, the IMF and the Structural Adjustment Programs have been effective in the transformation. According to Senses (1991: 221) the most dramatic changes have occurred at financial sector such as major banking reform legislation with new accounting and reporting standards[28], a deposit insurance schema and capital requirements, putting private banks under supervision of Central Bank via reserve requirements, capital ratios, and loan provisions; and the creation of an interbank market. However, the experience shows that this first wave of institutional change is not adequate to support stability and growth in the long term. Hence, second wave of institutional change after 2001 crisis may be seen an extension of the first wave. After the introduction of second wave of institutional change, macroeconomic stability has substantially improved.

Until now, institutional change seems to have been successful for avoiding crisis. Although it is true that Turkish GDP has contracted 4.7 percent in 2009 due to the global financial crisis, the growth rate of GDP in 2010 reached 9 percent. This is a sharp contrast with many developed countries. The reforms after 2001 crisis have aims of both avoiding future economic crises and achieving sustainable high growth rates. Ismihan et al (2002:14) provides empirical evidence based on a study over the period 1963 and 1999 such that macroeconomic instability in Turkey has deteriorated growth. Öniş (2004: 12-13) claims that the reasons of successful growth performance at following several years after 2001 crisis are tight fiscal policy as well as structural reforms like restructuring of banking sectors in particular.

The restructuring of banking sector is crucial for avoiding crises. The improvement is sourced from three channels mainly: The capital structure of both state and private banks has been strengthened; the share of government securities in total bank assets has declined due to tight fiscal and monetary policies and strict sector regulations for liquidity and foreign exchange risks (Bakir and Öniş, 2010: 90-91). Angkinand (2009) has conducted a study by analyzing the relationship between banking regulation and supervision and the severity of banking crises measured in terms of the magnitude of output loss. In the study, a data set of cross-section time-series of 47 banking crises episodes in 35 industrial and emerging market economies between the 1970s and 2003 is used. In general his study supports that countries with comprehensive deposit insurance coverage and strict bank capital adequacy requirements experience a smaller output cost of crises. In particular, Angkinand (2009: 255) found that the output cost of crises was expected to be higher for countries with deposits concentrated within a few large banks or a high proportion of state-owned banks, and lower if supervisors were independent from political pressures. Hence, one may say that recent Turkish experience is consistent with Angkinand's results.

In addition, one may expect that the restructuring of banking sector should improve the overall efficiency in the banking sector as well. Aysan and Ceyhan (2008: 1593-1601) have conducted a study to consider the determinants of bank performance in Turkey by using the fixed effects panel data regression analysis. The dependent variables are technical input

[28] Interestingly, after the 2001 crisis within restructuring of banking sector especially new accounting standards have been admitted. See Alp and Ustundag (2009).

efficiency, Malmquist Total Factor Productivity Change Index and its components of efficiency change and technological change. These are estimated by using Data Envelopment Analysis. The independent variables are bank capitalization, loan ratio, return on equity, number of branches, the foreign-domestic dummy, dummies for the 1994 and 2001 crises and dummy for the reform period. The data spans from 1990 to 2006. Their study is divided to sub periods: pre-reform and reform period. The reform period is defined as the period of 2001 to 2006. Although their data contains banks representing more than 50 percent of Turkish banking sector, state banks, development banks, investment banks and banks with insufficient data are not included. From our concerns, the results show that reform dummy has a positive statistically significant relationship with the efficiency and efficiency change. In other words, the results of this study supports that restructuring in banking sector has increased the overall efficiency in the sector.

There exists another issue that one may question whether liberalization and privatization of state monopolies in utility sectors have contributed to economic growth significantly or not. At first, state monopolies in these sectors have been started to privatize, which may contribute to public finance positively. Actually, the era after 2000 is distinct from earlier period in the sense that there is dramatic increase in privatization efforts especially in utilities sectors in Turkey.

The Turkish government has obtained more than $26 billion revenue from privatization over the period 2005 and 2008 (Atiyas, 2009: 2). This amount exceeds the total amount obtained from previous privatizations by a big margin. Besides, these privatizations are instrumental to attract foreign direct investment to Turkey. The Turkish economy has a structural weakness with having low savings rate that means savings-investment deficit to be financed with short term capital inflows. To sustain this deficit, previous governments have required higher real interest rates which were one of the reasons for unsustainable public debt dynamic in the past. This strategy has worked until now and there has been unprecedented amount of foreign direct investment in Turkey recently. Thus, I can say that privatization revenue and its use of attracting foreign direct investment may affect macroeconomic stability positively.

If the liberalization and privatization efforts in utilities contribute the economic growth significantly, then they contribute with two main channels. First, there might be technical efficiency gains expected from liberalization and privatization at sector level. Since technical efficiency change is a component of total factor productivity change, this efficiency gains might be reflected in the growth rates. Secondly, the outputs of these utility sectors are essential inputs for other sectors. Then expected price reductions, higher quality and new products and services attributed to liberalization and possible competition might reduce the unit costs of production in other sectors that means increase in allocative efficiency in overall economy. Finally in the long term, if the liberalized market is competitive enough and new investments take off, then one might expect increase in total factor productivity via technical progress embodied in new capital goods. Unfortunately, I have no empirical evidence to support or invalidate those possible effects of liberalization and privatization in utilities on long term economic growth[29] in Turkey.

[29] There are some studies on possible effect of liberalization and privatizing in utility sectors. In case of developing countries increase in total factor productivity change is sourced from technical efficieny change component, while in the developed countries the source is the technical change component. According to Ros (1999), telecommunications privatization and competition are positively correlated with technical efficiency and that privatization is positively correlated with network expansion. Ros (1999) has conducted a study on analyzing the effects of ownership or competition on the telecommunications industry. He examines the effects of privatization and competition on network expansion and technical efficiency by a fixed-effects panel data

There are also two important studies that emphasize the importance of institutions for long term economic growth in Turkey. Pamuk (2007) argues that low quality of institutions is the key reason as well as poor education and macroeconomic instability for Turkey's failure to close the gap with developed countries since 1950. The unique contribution of this study, from my point of view, is recognition of the role of institutional change in economic growth for analyzing long term growth in Turkey (Pamuk, 2007: 7-9).

The other useful study is made by Altug et al (2008). They examine the sourced of long term economic growth for Turkey over the period 1880-2005. In general, Turkish growth experience is not a miracle but average success with respect to other developing countries. I think that there is an important finding of this paper is the qualitative change in components of growth between ISI period (1950-1979) and globalization period (1980-2005). In other words, they have found that capital accumulation is the prime source of output growth during ISI era and the contribution of total factor productivity change to overall growth rate is very low. However, during the globalization era the contribution of total factor productivity change to overall growth rate is slightly over 1 percent. Maybe more importantly the source of this total factor productivity change is the manufacturing sector. On the other hand, capital accumulation is slower in this period.

Altug et al (2008: 414), then, emphasize several puzzles that are important from our purpose. Although capital accumulation plays a significantly important role in growth in successful East Asian countries, total factor productivity change exceeds 2 percent per annum over 1966 and 1990. Then the question follows that why change in total factor productivity is so low in Turkey. Likewise, Turkey has also low rate of capital accumulation with respect to the East Asian countries. Finally, Turkey has also low rate of transition from agriculture to non-agricultural activities.

They discuss the possible explanations for these puzzles by using existing theories, namely the role of institutions, human capital and macro-economic policy making. From the institutional perspective, they claim that social infrastructure formed by institutions and government policies may discourage to reach higher growth rates. According to them (2008: 417) "*the status quo in Turkey has typically favored the pursuit of privileges from local and national governments for the producers rather than the pursuit of productivity improvements or competition in international markets*". Also they underlie the use of populist policies towards agriculture in particular. They argue that agricultural subsidies are the reason for low rate of transition from agriculture to more productive sectors. Clearly, the reasons of crises in 1990s and 2001 are populist vote maximizing behavior of politicians in agricultural sector and its consequences on banking sector and public debt dynamic. However, with the second wave of institutional change experienced in early 2000s the former ways of agricultural supports have been mostly abandoned and new rules are defined to disrupt possible abuse mechanisms. Altug et al (2008: 415) give the credit for strong recovery after 2001 crisis to improvement in institutional environment thanks to the IMF and the EU as well as the most private sector friendly government in Turkey's history that is the Justice and Development Party.

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model using data from ITU. In that study, the sample data pertained to over 100 countries for the period 1986 – 1995. The dependent variables were various measures of network expansion and technical efficiency, while the independent variables were dummy variables for privatization and competition and additional control variables such as prices, investment per line and per capita income. One of the important findings of this study is that competition appeared to have a relatively less important role with a statistically significant effect only on main lines per employee, while privatization appeared to have a statistically significant impact on all measures of network expansion and technical efficiency.

From the human capital perspective, Turkey's education system produces very poor results and Altug et al (2008: 419) claim that Turkey has lagged to make pro-market reforms targeting human capital with respect to the East Asian countries. Finally, they recognize the remarkable recovery at the five years after the 2001 crisis and they define a new era though they criticize 'jobless' nature of this growth. Moreover, they underlie the fact that high inflation with high real interest rates and the increasing public deficit thanks to irresponsible loose fiscal policies in the past, have led to underinvestment in education and infrastructure by draining available resources.

From all this debate, there is a greater awareness in Turkish researchers about the role of institutions and institutional change in the long term economic growth. However, the number of existing studies is still very limited. Nevertheless, there is a consensus on existence of an institutional change in Turkey starting in 1980 and accelerating in 2001 in a complementary manner triggered by a series of economic crises. By the same token, there is a consensus on recognition of the superior growth performance after 2001 crisis and the positive role of institutional change to achieve this result. However, there is no direct empirical evidence on whether institutional change is this cause of this higher and less volatile growth rate or not. In addition, we may need more time to see the long term performance of growth in Turkey.

Actually, a new understanding and a new consensus on new rules of game depending on market mechanism has emerged in Turkey. The positive state as a planner, direct producer of goods and services and the employer of last resort becomes the regularity state[30] (Majone, 1997: 4). The main characteristics of the regulatory state emerged in Turkey are privatization, liberalization and re-regulation. In this framework, the role of state has changed from direct intervention to market to a kind of intervention by less burdensome methods. In fact, the desire is a leaner and more efficient state. Moreover, a new social class has also been rising in Turkey who is supporting this new order of things (Pamuk, 2007: 21), (Altug et al, 2008: 421).

Challenges Ahead

The emerging institutional environment is far from perfect to support high long term growth. In fact, there are some serious risks and deficits for sustaining long term growth. First of all, legal ambiguities between regulatory agencies may create power struggles and inefficiency. In other words, existing laws are not well thought. There are vague areas, which create uncertainties for independent regulatory authorities and, so they reduce benefits expected from those organizations. Burnham (2007: 206) argues that there was a need for a clear re-affirmation of overall policy at that highest level of government. For instance, the CA makes ex-post regulations, while sector specific regulatory authority, ICTA, is specialized at ex-ante regulations. From an integrated perspective, they have a complementarily relationship in function. However, existing laws give both administrations a duty to enforce competition ex-post. This ill-definition of administrative boundaries has sparked conflicting views and disputes among them (Ardıyok and Oguz, 2010: 6-9), (Atiyas and Dogan, 2007: 504). Burnham (2007: 206) suggests enhancing greater cooperation and information sharing between the two major regulatory agencies.

[30] Well, one may dispute whether Turkey was a Keynesian welfare state in the past or not. Most probably, this proposition is much more suitable for the evolution of European economies. Nevertheless, Turkish economy has shown statist characteristics until recently. Thus, that proposition is also suitable for Turkey to some extent.

Secondly, having independent regularity authorities and new laws does not mean a guarantee for expected effective results. The main advantage of the independent regulatory authority model is the expertise, specialization to narrow topics and flexibility in decision making as a requirement of rulemaking process (Majone, 1997: 17). For a proper functioning, there should be highly skilled employees at those organizations with necessary knowledge. Moreover, interest groups may affect the decisions of independent regulatory authorities, literally called regulatory capture. In addition to these, there may be divergent views between the Ministry and related independent regulatory authority. This is frequent in Turkey (Cetin and Oguz, 2007: 1767-1768). Finally, the appointments to the Boards of independent regulatory authorities are made by the Council of Ministers.

At Anglo-Saxon tradition of regulation, founding a commission is a way to diminish the partisan effect on decisions. Usually, some members are chosen from different interest groups such as consumer associations and/or firm associations representing industry. Moreover, only a small number of members are chosen at one time, because it is aimed to diminish the possible dominance of any political group in power. In addition to these, once the appointment is realized, they are not forced to resign except under unusual circumstances. In Turkey, however, all members of the Board are often nominated by the relevant Ministry. Moreover, existing member can be nominated by the Ministry again. There is no limit for the number of membership. There is one case such that all members of the Board have been relieved from duty by changing law. Besides, the Ministry has still considerable power on the utility company. This may create conflict of interests between the Ministry and regulatory administration. Essentially, the aim of delegation of regulation to an independent agency and privatization is to eliminate such possible conflict of interests.

Finally, there seems to be resistance among political class in Turkey. The best example exposing this is the liberalization and privatization issue. The expected benefits from liberalization come from productivity dividends sourced from elimination of monopolies. The difference between monopoly and perfect competition is well known. However, experience shows that political class in Turkey needs a catch up about it. Atiyas (2009: 6-7) informs us that the law, which would enable privatization of Turk Telekom in 1990s, has been cancelled by the Constitutional Court because there was no regulatory framework to be implemented after privatization. Clearly, privatization of network monopoly without proper regulation leads to negative welfare consequences in the long run. However, the government was focused on only the amount of revenue generated by privatization. Atiyas (2009:17) argues that to maximize expected privatization revenue government has delayed the privatization of Turk Telekom.

In general, governments in Turkey seem interested only in revenue terms not the productivity increase at long run. Atiyas (2009: 19-22) provides more dramatic example to how current government' motives are for privatization from electricity sector: A law passed in 2005 permits the vertical integration between electricity distribution and retail sales firms. His comment on this change is illuminating: "*…was indicating either that the development of a competitive industry was not a main concern or that the Ministry of Energy did not really understand the necessary conditions for such a development take place*." According to Erdogdu (2009: 1493) "*The whole privatization process appears to aim providing additional revenues to Treasury without paying attention to the crucial underlying economic logic*." The hidden motive is to make more attractive for potential investors to maximize privatization

revenue by granting monopoly rents[31]. Therefore, the government is either underestimating the allocative inefficiency created by monopolies at private hands or ignoring at all. In fact, according to Majone (1997: 18) " *... politicians have few incentives to develop policies whose success, if at all, will come after the next election*". The problem is sourced from lack of commitment by elected government to deal with policies requiring continuity in long term, while there is a regular election cycle that is the main concern for the current government. Delegating policy making powers to independent administrations such as independent central bank is a solution to this problem. In short, government sees privatization as panacea and it is only interested in privatization revenue obtained in the short term or until the next Election Day.

V. Conclusion

Institutionalism argues that economic and political institutions affect the incentives to accumulate and to innovate so that they are the main determinants of long term growth rate. Institutions are simply the rules of the game in a society so that they constrain human action. On the other hand, there are only several empirical studies on institutions and growth. This area is quite new.

There is a newly emerged concept -regulatory state. It is a state giving more emphasis on the use of authority, rules and standard-setting rather than public ownership, public subsidies and direct provision of public goods. The rise of the neoliberal agenda associating with crisis in late 1970s in the capitalist world has caused this change. Regulation may be defined as specific form of governance involving a set of authoritative rules accompanied by an administrative agency in order to monitor and to enforce compliance.

Turkey has experienced important institutional transformation during the last decades. In particular, it has started with liberal policies in early 1980s. Turkey has abandoned the import substitution policies after a serious balance of payments crisis. Foreign trade regime has been liberalized and export oriented development strategy has been adopted. The main goal has been to create a market based economy integrated with world markets.

However, this first wave of institutional change is far from adequate. On the contrary, inadequate regulatory framework at financial sector and widespread corruption as well as bad macroeconomic management has led to crises between 1990 and 2001. Thus, the institutional change towards regulatory state is triggered with those economic crises. The crises have altered the power balance in the country in favor of regulatory state by diminishing the power of domestic rent seeking coalition. During the process, the most decisive factors are external: the IMF, WB and EU.

The implicit logic of all this so-called structural reforms is to create and enhance the market based economy and the associated rationalization of public management in line with it. The Central Bank's independence from the political authorities that is perceived as a vital guarantee for prevention of irresponsible monetary policies, liberalization of electricity, gas, telecommunications and aviation sectors, privatization of large state monopolies at those

[31] A similar case has occurred during privatization of Turk Telekom in 2005. The government has tried to privatize Turk Telekom as a whole. However, the CA has conditioned to the government to separate cable network infrastructure from Turk Telekom. At the same time, the CA has required to set up distinct firm for internet access business at retail level. The existing cable network has been a real infrastructure alternative for Turk Telekom's classical network. On the other hand, it has not been privatized yet.

utilities sector including Turk Telekom, building independent regulatory authorities, …etc are among some of the important changes of this new institutional era.

After the introduction of second wave of institutional change, macroeconomic stability has substantially improved by creating a new institutional environment based on market mechanism and state as a regulator. Institutional change seemed to have been successful for avoiding crisis in spite of the global financial crisis. The robustness of banking sector due to the restructuring is crucial for avoiding crises. There is a belief that institutional change is very important to achieve high growth rate with less volatility, there is no any direct empirical evidence to prove it. Also, more time is needed to see the long term performance of growth in Turkey. Nevertheless, the role of institutions and institutional change in the long term economic growth has started to be discussed by Turkish academia.

New institutional environment is far from perfect. First, legal ambiguities between regulatory agencies may create power struggles and inefficiency. Secondly, having independent regularity authorities and new laws alone does not mean a guarantee for expected effective results. Finally, political class in Turkey is characterized by a myopic behavior and their understanding has very serious shortcomings. I believe that the role of institutions for economic growth and the reorganization of Turkish traditional state structure towards regulatory state will continue to be debated in near future.

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