TWO DECADES OF CENTRAL BANKING: INSTITUTIONAL CHANGE IN TÜRKİYE'S POLITICAL ECONOMY

A Master's Thesis

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ABSTRACT

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This thesis argues that two seemingly conflicting theories of institutional change, the ones on critical junctures and the ones on gradual institutional change, are not mutually exclusive. Based on a qualitative research design and a single-country study, this thesis examines the two different periods of institutional change that the Central Bank of the Republic of Türkiye has gone through, first in 2001 and second after the 2010s. It compares and contrasts these two periods for comparative insights. Then, it makes a historical analysis of the latter change under four dimensions: principles, objectives, procedures, and instruments. I argue that these four dimensions have undergone four modes of change that are drift, conversion, layering, and displacement. It also compares the effects of endogenous constraints and exogenous pressures. The thesis ends with comparative insights that Türkiye is not a unique case.

Keywords: Central Bank of the Republic of Türkiye, critical junctures, gradual institutional change, policy structure, monetary policy

ÖZET

MERKEZ BANKACILIĞININ YİRMİ YILI: TÜRKİYE'NİN POLİTİK EKONOMİSİNDE KURUMSAL DEĞİŞİM

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Yüksek Lisans, Siyaset Bilimi ve Kamu Yönetimi Bölümü
Tez Danışmanı: Doç. Dr. Hasan Tolga Bölükbaşı

Temmuz 2022

Bu tez bir tarafta kritik dönemeç kuramları bir tarafta da kademeli kurumsal değişim kuramları olmak üzere birbiriyle çatıştığı düşünülen iki kurumsal değişim kuramının aslında birbirini dışlar nitelikte olmadığı görüşünü savunmaktadır. Nitel araştırma tasarımı üzerine kurulu bu tek-ülke çalışması Türkiye Cumhuriyet Merkez Bankasının, ilki 2001 yılında ikincisi de 2010'lardan sonra olmak üzere iki farklı zaman diliminde geçirdiği kurumsal değişimleri karşılaştırmalı sonuçlar elde etmek amacıyla incelemektedir. Sonrasında tarihsel analiz yoluyla dört boyut incelemeye alınmaktadır: ilkeler, hedefler, prosedürler ve araçlar. Bu dört boyutun dört farklı mod biçiminde (sürüklenme, çevrim, katmanlandırma ve ilga) ortaya çıktığı iddia etmektedir. Tezde ayrıca iç kökenli kısıtlamalar ile dış kökenli baskılar da karşılaştırılmıştır. Tez, Türkiye'nin bu değişimler konusunda tek ve emsalsiz olmadığına dair karşılaştırmalı bir içgörü ile sona ermektedir.

Anahtar Kelimeler: Türkiye Cumhuriyet Merkez Bankası, kritik dönemeçler, kademeli kurumsal değişim, politika yapısı, para politikası

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CHAPTER I

MONETARY POLICY AND THE MANY FACES OF INSTITUTIONAL CHANGE

1.1. Introduction

There is a parable in ancient Greek philosophy called the "Ship of Theseus." It tells the story of Theseus, a mythical king of the Athenians, who one day embarks on a journey on his famous ship. But as the journey takes its toll on their vessel, Theseus and his crew start to replace small parts of the ship each day to the point that when they have at last dropped anchor at their final destination, they had managed to replace every single part of the ship, effectively having built a new one from scratch. But since the replaced parts are similar and the change has been so incremental no one actually feels that the ship has been altered so dramatically. Perhaps only a person waiting for the ship on its final destination would have realized that the arriving ship is essentially a different one. To the careless observer and the crew, for all intents and purposes, it is the same ship. Some philosophical questions arise. Is the ship really the same? If not, at what point did it become something different? This thesis is concerned with the same parable with the difference that the story I want to tell is not of the Ship of Theseus but of the Central Bank of the Republic of Türkiye (CBRT).

After the sweeping reforms of 2001, the CBRT had been radically transformed and, to follow the analogy above, had embarked on a new journey. However, as the journey went on, some parts of it have been changed, in a piecemeal but no less significant sort of way. I explore the changes it has gone through and trace the ways in which the Bank has changed in 2001 and after the 2010s, respectively. I try to study the *pace*, *formality*, and *mode* of institutional change that CBRT went through in these two distinct periods. Then I try to analyze these two periods in comparative perspective to see whether this would yield any comparative insights for exploring the politics of institutional change.

1.2. The Problem and its Setting

The dynamics of institutional change have been studied extensively in organizational sociology, comparative politics, and comparative political economy (Mahoney & Thelen, 2010; Thelen 2010; March & Olsen 1989; Sanders 2008; Knight 2004). Institutions, in these bodies of literature, are usually considered to be durable and continuous (Hall, 1992) therefore studying their change poses certain analytical and methodological problems. The literature is broadly divided into two streams. While some scholars (whom I classify as critical juncture theorists) see institutional revolutions to taking place almost exclusively through abrupt, one-in-a-lifetime, radical path departures, others (whom I call gradual institutional change theorists) see institutional change through slow-moving, stepwise, incessant, and piecemeal evolution. These theories are usually told as very different, often conflicting. The main problem that I tackle in this thesis is whether these two very different theories of change could be reconciled. I explore the intricate politics of institutional change in an institution, CBRT, which has gone through two different periods of change each of which can be explained with only one of the theories. There must be a way to explain the different *paces*, *modes*, and *forms* of change within the established theory. I argue that these two theories of institutional change must be deployed together within the contours of the same case but across time, to come up with the greatest possible amount of explanatory power.

One key analytical difficulty I faced was that the terminology of the theories on gradual institutional change is difficult to conceptualize, and even more difficult to operationalize. So, it is practically, if not also logically, impossible to determine if the *whole* of something has changed gradually therefore, I try to investigate *parts* (which the literature calls, “dimensions” after operationalizing them in Chapter 2) of these institutions. Namely, I search for change in the *principles*, *objectives*, *procedures*, and *instruments* of the CBRT.

Out of this problem, my research question(s) arises: Under what conditions would different theories of institutional change be applicable? Is there a way to conceptualize and operationalize the variables of gradual institutional change in such a way that it remains compatible with theories of critical juncture? Under what conditions Türkiye, as a case of an emerging-market economy, developing country, and middle power, would follow different paces and modes of institutional change? How would the politics of these trajectories unfold?

1.3. The Argument and Main Claims

Exploring the politics of institutional change helps me in making three arguments. My first and most important argument is that two prominent views in the literature on institutional change (first, the theories of critical junctures; second, the theories of gradual institutional change) are neither mutually exclusive nor jointly exhaustive. I try to show that an institution, the Central Bank of the Republic of Türkiye, has undergone two significant periods of change, first in 2001 and then in the 2010s and after. The former of these changes could best be explained by the theories of critical junctures suggesting only a “punctuated equilibrium”, where an exogenous or endogenous shock must upset the balance to the degree that there must be an abrupt, sudden change reminiscent of wars, disasters, revolutions and alike. The change I observe that started after the 2010s, and still continues as of 2022, cannot be explained by the first theory. No radical shift occurred either in the context or in the institution itself. The government has not changed, the same party with the same leader is still in power. As explained in Chapter 3, there have been no substantive changes in the legislation, nor the formal rules have been altered. There emerged a different but perhaps no less consequential kind of change, however. The second theory tells us that institutional change could be incremental, piecemeal, and more often than not, hidden and/or informal. This line of thinking is so much better-equipped to conceptualize and explain the changes I have been observing in the CBRT for the last few years. Thus, my first argument takes shape. Two seemingly opposite theories help us explain two different changes that an institution went through in a relatively short amount of time. Therefore, I argue that these two theories are not mutually exclusive. As is the case with CBRT, these two theories explain two different time frames of the same case. Therefore, the dilemma we think we are facing in the literature of choosing between these two theories is neither analytically helpful nor ontologically valid. After having explored two decades of politics of institutional change in CBRT, I realize only with the combination of these two theories am I able to provide an explanation of the changes in comparative perspective. Each of these theories seems to be explaining the two different periods in the life-course of an institution.

These theories are not also jointly exhaustive either. As this thesis demonstrates (*see also* Chapter 4), there are still many gaps in the literature that beg for exploration and explanation. Even when we try to make use of the combination of both theories, we can still only offer a partial explanation. Therefore, I argue that i) both of these theories are partly wrong and partly right; ii) yet even their analytical synthesis still falls short of a complete explanation of the case under study in this thesis.

My second argument is that there is a long-standing consistent fiscal dominance in Türkiye. Fiscal dominance, defined as the primacy of fiscal policy and its main actors over monetary policy, has always been an issue in Türkiye, as is the case with many other emerging market economies. There may have been times during which the government, knowingly and willingly, forbore its fiscal dominance, especially during the early 2000s. Yet, policymakers reversed the situation whenever they chose to. Thus, I argue fiscal dominance is still the rule of the land, as had been the case for as long as the CBRT existed.

My third argument centers on a key distinction between endogenous constraints and exogenous pressures we resort to in comparative political economy. I try to reveal the futility of this analytical distinction by exploring the politics of inexorable exogenous pressures and endogenous institutional dynamics. As I explain in Chapter 2 and demonstrate in Chapter 3, even the most seemingly endogenous constraint and an incredibly alien exogenous pressure is always interaction with one other. At least in the case of CBRT's last two decades, no change has been exclusively caused by either.

1.4. Research Design and Methods

This thesis relies on an across-time and within-case, comparative, single-country research design. It deploys qualitative methods as they are used in macro-causal historical analysis.

This is a single-case study. Single case studies have always been popular in the literature but until recently they sometimes can be seen as obsolete when it comes to comparative politics (Culpepper, 2005). However today, single-case studies focusing on one country are an integral part of comparative politics research both in general and in field studies (Pepinsky, 2019). A part of this is explained by the renewed interest in internal validity. A single-country study is suitable for making descriptive and causal inferences because it makes it easier to work on details (Pepinsky, 2019). Moreover, this case-oriented approach becomes all the more important when it is a within-case, across-time case study (Lange, 2012). The literature is replete with examples of how single-country studies could lead to externally and internally valid results (Landman, 2003) from which I have greatly benefited while analyzing my data.

Then, why did I choose Türkiye, as a single country to study? What makes Türkiye a suitable case? As Seawright and Gerring (2008, p. 296) put it, this case provides "useful variation on the dimensions of theoretical interest." This thesis aims to provide such a case that it employs both sides of seemingly disjointed theoretical frameworks. Gerring (2004, p. 342) proposes to define a case study as “*an intensive study of a single unit for the purpose of understanding a larger class of (similar) units*” (emphasis in original). I chose Türkiye because it has the potential to serve as a good sample for many categories. During the last two decades, Türkiye has witnessed a good degree of variation in inflation rates, from five percent to seventy percent. Again, Türkiye’s standing both in international politics and international political economy has dramatically changed. Its relations with Bretton Woods institutions fluctuated whereas its relations with its significant trade partners had their ups and downs. Thus, the Turkish case presents me, and any researcher for that matter, with a great deal of variation which helps me to generate more explanatory power especially since I have been working with different theories. Which theories would better explain different parts of institutional change(s)?

Since this is a single-country study, not a cross-national one, it is not crucial that I categorize Türkiye under a certain group. Yet, in order to better understand some of the characteristics of its political economy, I would like to evaluate it under certain categories so that I can properly distinguish its idiosyncrasies. I would like to suggest that Türkiye could be considered under three categories. Türkiye is an emerging market, a developing country, and a middle power. First of all, Türkiye is an emerging market economy although at times considered “unstable” (İsmihan & Metin-Özcan, 2009). Since Türkiye is an emerging market economy I tried to trace the reforms to its historical roots, the IMF-backed reform packages, and the influence of the European Monetary Union (EMU). Second, Türkiye is also a developing country. That helped me to better understand how the World Bank had an effect on the reforms we see in Türkiye. It would be impossible to evaluate the central banking of a developing country without taking development economics into account. Third, Türkiye is also a middle power which places it in the international arena in such a position that it is capable to resist certain challenges, and modifying some of them but cannot ignore all of them. This last characteristic of Türkiye wields us great analytic power to understand the interaction of endogenous and exogenous factors, especially during the 2001 reforms.

Last but definitely not least, I use historical analysis in this thesis. What Skocpol and Somers (1980) identify as “comparative history as *macro-causal* analysis” is a central pillar of this study’s research design. It could be taken as a research method as well but its broad and extensive use without a clear definition makes it a better part of the design, rather than a method. Macro-causal analysis, as the name suggests, is mainly used for cross-national studies to pinpoint general, macro causes for events of historical significance in the hopes that those causes that are revealed will also yield some generalizable results. It has been used in cross-national, multi-variable studies, however, the only analytic necessity for its use would be making comparisons. In this study, I construct such a comparative design. Through analyzing different paces of change at different times, I aim to reveal certain patterns of institutional change, most importantly the characteristics of and causal dynamics behind it, by exploring the politics of changes of differing kinds. It does not follow the strict logic of either the most similar or most different systems design. However, it builds on the similarities between the different time periods it investigates.

This is a qualitative study. Although monetary policy has been studied with quantitative methods predominantly (Abuannab, 2019), this study aims to explore the institutional side of monetary policy and the power-distributional effects of political economic institutions. Therefore, in-depth analysis and internal validity are more important to reveal these patterns. Combined with the single-country design of the thesis, qualitative research seemed like a necessity. In addition, a quantitative study would have constrained my data sources to official statistics on this matter, which in turn would have prevented me from exploring the informal institutions and some of the more nuanced forms of change that may not be immediately reflected in numbers.

Last but not least, this thesis relies on an across-time, within-case comparison. It is an across time comparison as it focuses on two distinct time periods that is marked by two distinct forms of institutional changes. It is a within-case comparison because it explores the politics of institutional variation in the same case, a single country, and more importantly a single institution, the CBRT.

1.5. Data Sources

The data I use can be categorized into two. First, in order to make sense of the formal changes, I have extensively and comprehensively explored the legislation. The Law on the Central Bank of the Republic of Türkiye (Law No. 1211, as amended by Law No. 4651) has been the most crucial and central one to this study. Yet, I also make use of other pieces of legislation such as the Constitution of the Republic of Türkiye, statutory decrees, presidential decrees, regulations, and bylaws (the ones that were in place before the constitutional amendments of 2017), and official protocols. I use government reports, working papers, and other official documents released by the CBRT, the Turkish Statistical Institute, and the Presidency among others. Similar documents by international organizations (e.g. the World Bank Group, IMF) and non-governmental organizations are also included. These have been most useful for researching the formal side of change.

As for the incremental and often informal changes, I relied on different sources. As primary sources, I make use of media coverage of certain events, especially through the print media. I have analyzed not only news pieces but op-eds and columns by key informants who at one point in time had active roles in the politics of institutional change in the CBRT. These informants range from high-ranking bureaucrats to key politicians as policymakers. As a check on official sources, as secondary data, I bring in observations of economics correspondents as they appeared in print media. To complement these primary and secondary sources, I have also included memoirs, letters, interviews, and speeches of key policymakers. Last but not least, although this thesis is based on qualitative research methods when needed, I use general economic statistics such as yearly and monthly inflation rates, consumer, producer price indexes, and other relevant quantifiable data (Central Bank Independence Indicators, etc.).

1.6. Organization of the Thesis

The thesis is structured as follows. In Chapter 2, I start by explaining why and how institutions are significant as objects of study. I briefly expand this debate to institutions of political economy, as CBRT is one. Then, I give a brief description of institutionalisms, old and new; followed by a more detailed dive-in to historical institutionalism, a general theoretical framework I adopt in this thesis. I give reasons for studying institutional change using historical institutionalism and conceptualize some of the important terms employed by it. In the rest of Chapter 2, I explain the pace, formality and modes of institutional change. I also conceptualize the dimensions (principles, objectives, procedures, and instruments) to explore the “pace of change” to clarify how I study gradual institutional change. I end by providing important conceptual and operational definitions. In Chapter 3, I analyze the 2001 reforms led by Kemal Derviş and how those stemmed from a critical juncture opening a policy window. After explaining the relatively successful implementation of his reforms, I list the changes in the legislation and explore how the critical juncture emerged and the ensuing politics shaped the dimensions of the CBRT. Then I move on to the gradual change of the CBRT which, I argue, started after the 2010s. I analyze the principles, objectives, procedures, and instruments of the Bank. Finally, in Chapter 4, I present my conclusions in a summary format, followed by some of the comparative insights I have gained through this case study. Based on my findings, I end by providing some brief notes for future studies, in the form of brainstorming.

CHAPTER 2

THEORIES OF INSTITUTIONAL CHANGE AND HISTORICAL INSTITUTIONALISM

2.1. Why Do Institutions Matter?

In this chapter, I would like to briefly discuss the history of institutionalist thought, compare it with some of the other contemporary strands of political science, pick a well-established definition of “institution” from the literature and delineate its differences from other crucial concepts such as organizations, rules, interests, ideas, and action. I also would like to explain why and how change is still so difficult to study when it comes to institutions but how historical institutionalism, a branch of new institutionalism, could provide us with novel concepts and ways of thinking to overcome some of the analytic obstacles.

In political science, especially after the emergence of New Institutionalisms, stressing the importance of institutions and studying them has become quite standard but there is no established reason, at least in consensus, for why we should care about them at all. Yet at any rate, we now live at a time where scholars are inclined to think *if* institutions are important, but the analytical questions become *how* and *to what extent* (Fioretos, Falleti, and Sheingate, 2016, p.3). However, despite their significance and popular use, institutions have been rarely clearly defined (Offe, 2006). It seems that it is almost a matter of intuition for political scientists to study institutions. However, one can see many interrelated, at times even conflicting reasons to study institutions. Institutions, whether social, political, or economic, have become larger and more complex, granting them greater importance for collective life (March and Olsen, 1989). This thesis uses and combines the widely recognized definition given by Hall: “institutions [are] the formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy.” (Hall, 1986, p.19) In another paper Hall and Taylor (1996, p.938) adds informal procedures, norms, and conventions to the definition making a significant expansion on what we understand of the concept, in general.

2.1.1. Institutions of Political Economy

The relationship between economic and political institutions is complex because one “shapes the fate” of the other, they are in constant interaction and a feedback loop, often characterized by lock-ins (Moran, 2008). The situation becomes even more complex when an institution is both. An analysis of a political economy institution, therefore, amounts to much more than just analyzing a political and an economic institution. It requires specific analytical tools which I thought that I can only gain from historical institutionalism.

This thesis examines the Central Bank of the Republic of Türkiye (CBRT), which could be located at a fine line between politics and the economy. With insights from the current literature, I make two assumptions: i) Central banks are not merely economic institutions on their own. There is certainly a politics to central banking thus, I shall consider CBRT as an institution of political economy and not just economy. ii) Claiming something to be political is a vague statement, meaning that the political variables must be well-defined and it should be clear how and when these come into effect (Hall, 1986, p.229). This thesis, relying on Historical Institutionalism as its main theoretical framework, strives to describe how and when political factors structure central banking in particular and macroeconomic policy-making in general in Türkiye. The remaining subsections expand on the key tenets of

Historical Institutionalism and show how it is very well suited to reveal the intricate politics of institutional change in central banking.

2.1.2. Revival of Institutionalism

The term “institutionalism” could be examined as the old institutionalism and the new. Old institutionalism with all its influence and popularity in the 1950s and 1960s has marked a significant era in the history of political science. The reason why it is called “old” institutionalism is mostly chronological as the “new” institutionalism(s) of the 1970s were to arrive at a later time, with a different agenda and a set of premises. The old institutionalist approach favored what may be called a “legal-formal” framework. It suggested a thorough and systematic analysis of constitutions, statutes, and formal, written rules or any other type of legal document. Naturally, this included the exploration of government types, regimes, and political systems.

Therefore, it would be wrong to suggest that “new institutionalism” has been the first to investigate institutions from a scientific perspective (Thelen and Steinmo, 1992). New institutionalism is unique not only because it helped the revival of institutionalism after decades of pluralism and behaviorism, but also because it changed the way political science perceives institutions. Hence, the “new” in new institutionalism is not merely a chronological denote, but also a characterization of its outlook on politics and institutions. This thesis makes use of new institutionalism and historical institutionalism as a part of this due to this refreshing outlook on politics, explained below in detail. Yet, old institutionalism is still relevant in many spheres of institutional analysis for two reasons: first, the older take on formal-legal analysis is still very much alive, and second, old institutionalism covers more than that type of analysis (Rhodes, 2008). But then why must one be bothered by the intricacies, complex analyses, and at times sinuous argumentations of new institutionalism, if old institutionalism is still very much viable and behaviorism and pluralism are valid rivals? A partial answer to this question, I hope, is the argumentation style of this thesis and the historical institutionalist work from which it is inspired and to which it refers. As this thesis tries to show, institutional change can not always be pinpointed. Historical institutionalism has taught us two important things about change. First, that change is sometimes a process and not an abrupt change in the political landscape. Second, change may not always be reflected in what is written down (formal rules and procedures).

Aside from old institutionalism, Historical Institutionalism also developed as a kind of response to the pluralist and functionalist tendencies of the 1960s and 1970s (Hall and Taylor, 1996). To examine an economic institution such as a central bank, famous for its technocratic structure and standardized operating procedures, it may not make sense to look at it as only a “battleground” for different interest groups as would a pluralist may consider. Rather, the “battleground” of power (re)distribution constantly changes and evolves. Elmer Eric Schattschneider, a fervent critique of pluralism, notes that for a healthy analysis to be made, one should always take the ever-shifting political landscape. The rules of the game and the parties to the conflict always change. In perhaps his most famous yet concise work, *The Semisovereign People*, Schattschneider (1975) argued that the scope of any conflict constantly and often dramatic changes which leads to different results and patterns of power distribution. Hacker and Pierson (2014), take Schattschneider’s analytical heritage and follow through to its logical conclusion: A historical institutionalist analysis, or any historical analysis for that matter, must adopt a dynamic view on history. If no rules and no parties to any conflict remain the same, then one must take sequentiality, path dependence, and lock-in effects into account. Only then, I may be able to pinpoint the factors that have changed and the factors that have led to change. That brings me to the relationship between change and institutions. In the next section, I will try to demonstrate the usefulness of historical institutionalism in studying change.

2.1.3 How Historical Institutionalism is Suitable for Studying Change?

A central assumption of historical institutionalism is to examine social interactions not in isolation but as processes within life (Sanders, 2008). Historical institutionalism as a research tradition investigates “how temporal processes and events influence the origin and transformation of institutions that govern political and economic relations” (Fioretos, Falleti & Sheingate, 2016, p.3). Therefore, periodization, sequentiality, and dynamism are analytically important for the research agenda of Historical Institutionalism. Since it is the historical processes that often slowly but surely structure the political and economic relations, in order to detect how politics unfolds one must examine longer periods rather than a snapshot of a given point in time. As Pierson (2004, p.5) explains, the statement “history matters” is a famous but ambiguous one. The literature lacks a clear understanding or explanation as to why one must pursue an intensive investigation of temporal processes (Pierson, 2004). Just as much as we rarely know why institutions are essential, we also cannot quite explain why temporal processes play such a large role in them.

Luckily, this question is easier to answer when we are talking about change since the very concept itself entails temporality. Another work by Pierson (2015) essentially serves as an overall critique on how political science has abandoned studying power, which is a recurring theme both in this thesis and the historical institutionalist literature. Last but not least, the theories of gradual institutional change which managed to challenge the prevailing idea of critical junctures, have also been largely constructed by historical institutionalists. The last decades saw a huge surge in the number of studies trying to understand institutions in the context of both gradual, piecemeal, and often hidden faces of change (Falleti, 2010; Sheingate, 2010; Onoma, 2010; Slater, 2010; Hacker, Pierson & Thelen, 2015; Palier, 2005; Hacker, 2005).

2.1.4. Ideas, Policies, and Rules

There is an ongoing debate in the literature about the exact relation between ideas and institutions as well as about the mechanisms of their interactions (Smith, 2006). Indeed, upon examining the CBRT, one can observe the positive feedback mechanism at play: Key policymakers' disenchantment with its previous idea of “an independent central bank” is closely connected with their actions and the eventual and partial decline of CBRT's autonomy. The time frame, as further explored in the next chapter, suggests that neither caused the other but it was a positive feedback loop. The more the key policymakers expressed a desire for a closer grip on monetary policy, the more and the tighter regulation followed, each of which was followed by a further debate. Even this positive feedback mechanism itself alone implies that the institutional change in the CBRT in the 2010s has been piecemeal and incremental, as opposed to the fundamental changes that resulted from the (in)famous critical juncture in 2001. Therefore, ideas *do* play a role, but it seems too simplistic to put them at the forefront of analysis.

The same goes for rules. However, in this thesis, I take rules as twofold, formal and informal. For instance, formal rules, most commonly in the form of legislation, are always effective and binding. Yet, their effect notwithstanding, sometimes they are overruled, even outranked by informal rules and institutions. Fiscal dominance is an excellent example of this. Once fiscal dominance became the (informal) rule of the land again in Türkiye, no amount of formal and nominal rules concerning the political independence of the CBRT seemed to have any *de facto* effect.

In addition, I have also taken into consideration that politics does not always create policies, but sometimes it is the other way around. Historical institutionalists have been studying this question for some time now. Once again, following Schattschneider's framework, there has been an increase in the interest in the direction of causality between policy and politics. Weir (2006), Campbell (2012), Jacobs and Mettler (2018) are examples of such efforts although their results differ. In this thesis I do not point to any direction of causality, that would be beyond the scope of this thesis. Suffice it to say, I have, at all times, taken into consideration that the two are always in interaction. In other words, there is no policy without politics and no politics without policy. This thesis also aims to repeat that point.

2.1.5. Other Conceptual and Operational Definitions

In this section, I would like to briefly discuss monetary policy and central bank independence, path dependency, sequentiality, and temporal context as key concepts I use in the thesis. I also try to explain how I operationalize them below.

It is difficult to conceptualize *central bank independence*. It is even more difficult to conceptualize it when the operationalization is done within the study of political economy rather than just economics. This is because central bank independence criteria in the literature are mostly concerned with its formal dimensions of it (Goodman, 1991). However, a huge part of this thesis explores a gradual pace of change. Thus, I did not make use of some of the well-established criteria in the literature, most importantly the one by Cukierman, Webb, and Neyaptı (1992). Yet there is also the behavioral approach for measuring independence which aims to measure whether a central bank can adopt policy instruments without prior approval (Woolley 1984 as quoted in Goodman, 1991). This is closely related to instrumental, or economic independence. I also take political independence into account, meaning the freedom to determine policy objectives without prior consultation.

Path dependence and the infamous lock-in effect of institutions are crucial for understanding the monetary policy in Türkiye. However, as is the case with every part of the literature this thesis examines, I try to demonstrate how path dependency provides explanatory power partly quite well and partly quite insufficiently. A narrow, operationalizable definition of path dependency is required, nevertheless.

Many Historical Institutionalists trace the origins of some key political and economic institutions through a context of “some historical choice point” after which an institution follows the subsequent logic of political development (Conran and Thelen, 2018). This outlook explains how certain reforms, however controversial to public opinion and difficult to implement at first, augment their positions and remain the “rules of the game” or the “law of the land”. Therefore, as Pierson (2004) suggests, we need to take the sequentiality of the events into account. Any macro causal analysis should explore the events in a certain timeframe, in connection, and in a dynamic way. This thesis is based on that view.

2.2. Explaining and Measuring Institutional Change: Convergence of Two Theories?

2.2.1. When and How of Institutional Change

I discuss institutional change in three ways. First, I examine the pace of change by determining whether it is an abrupt, sudden change that may be best described by a punctuated equilibrium model; or whether it is a piecemeal, incremental change that seems fairly difficult to observe at first glance and makes sense only within a temporal context. Second, I look at whether the given changes are formal or informal in nature. In other words, I look at whether the changes that principles, objectives, procedures, instruments, rules, and institutions have undergone change were formal or informal. Finally, I take a look at the mode of institutional change, a category most useful for studying piecemeal changes. I try to understand and classify the changes of the CBRT by deciding whether it is a simple parchment rule change or whether it fits one of the four categories of change listed by Mahoney and Thelen (2010): conversion, drift, displacement, and/or layering.

I also explore whether the change has been due to endogenous factors or exogenous pressures but I have tried to limit the extent of this due to two reasons. First, whatever and in what ways the change may have occurred, it actually does not affect the category it falls under for the first three typologies. Second, the data I have at hand do not permit me to pinpoint the exact causes of these changes. As is evident in Chapter 3, I often treated the government and the CBRT as mere black boxes. As an outsider, I can explore and analyze the adopted policy patterns, but I was often completely oblivious as to what the motivations might be for a certain policy. Other than assuming rationality on part of civil servants and the members of the executive, *hypotheses non fingo*.

2.2.2. Pace of Institutional Change

2.2.2.1. Abrupt Changes, Punctuated Equilibria, and Critical Junctures

A large body of institutionalist literature on institutional change heavily relies on a punctuated equilibrium model, assuming long periods of relative stability disturbed through exogenous shocks followed by bursts of change (Streeck and Thelen, 2005, p.1; Thelen, 2010: p.45-46). It is important to note that “critical juncture” is only one way of expressing the kind of sudden change to which historical institutionalists ascribe importance. As Cappocia and Klemen (2007) state, “turning point”, “crisis”, and “unsettled times” are also used in the literature. I also use them interchangeably, they all refer to any situation in which a relatively stable period is abruptly ended by a shock of some sort, changing an institution in a directly observable way. The shocks that lead to such changes could be of any kind. Wars, revolutions, counter-revolutions, natural disasters, and *coups d’état* are good examples of exogenous shocks paving the way for a critical juncture. However, the shock of the sudden constraint that forces the institution to change could be endogenous. The demands for a radical reform from inside of whatever the level of analysis is, could emerge. This thesis argues that the two often come together. Even when one of either is explicitly more dominant as a reason, it still is in a constant feedback loop with the other. The next chapter illustrates this. Even when a technocrat wielded extensive authority and takes power to implement change, they are still bound by endogenous pressures. Critical junctures are always caused by a combination of both exogenous and endogenous pressures.

It is quite easy to understand this side of the literature to the point that it seems almost intuitive. Since institutions are associated with continuity and regularity in human behavior (Hall, 1992), there must be a sudden change, a shock of some sort to “turn things around”. Critical junctures have been considered central to any social scientific explanation that employs causation (Sofier, 2012). I adopt macro causal analysis in this thesis, therefore critical junctures are analytically easier tools to use. Its conceptualization is quite standard and it is easy to operationalize. Whenever we see a sudden shock, exogenous or otherwise, that changes the formal rules and regulations of an institution we assume that there is a critical juncture, a punctuated equilibrium.

2.2.2.2. Mahoney and Thelen’s Theory of Gradual Institutional Change

A compelling theory of gradual and piecemeal institutional change is outlined by Mahoney and Thelen (2010). The theory acknowledges the existence of abrupt and major changes just as standard scholarship. What is new in their theory is the introduction of these piecemeal changes as well as a broad theoretical framework trying to explain the co-existence of both these types of changes. Four types of piecemeal changes are identified: drift, conversion, displacement, and layering. This typology is further explained in the following subsection. Also, in Chapter 3, I show how this framework is analytically useful to explain many of the changes that the CBRT has gone under.

The theory of gradual institutional change suggests that to determine and understand a mode of political change requires us to explore and comprehend the characteristics of a given political context and the institution we are investigating. The *potential* modes of change are dependent on the characteristics of the institution and “what *animates* change is the power-distributional implications of institutions" (Mahoney and Thelen, 2010, p. 14). This is not to be taken solely as the motivation of the political actors (something which I already declared I cannot investigate in the previous section) but it must be considered as the whole set of conditions in which institutional change is to happen.

However, since it would be very difficult to measure gradual change by examining the whole of any institution, it is necessary to compartmentalize. An analytic distinction has been made by Graziano (2011) based on Hall (1993): a given "policy structure" contains four dimensions: principles, objectives, procedures, and instruments. More recently, Bolukbasi and Ertugal (2013) and Bolukbasi, Ertugal and Ozcurumez (2018) expand on the "policy structure approach" which constitutes the basis for exploring the changes in the structure of central banking policies in this thesis as well.

First, *principles* are almost intuitive. They are overarching ideas that shape the policy design. This thesis, for instance, explores a set of key principles, such as Europeanization and nationalization, each of which are rules effectively guiding policy. Notice that principles are very extensive and consequently ambiguous. This is, in part, what provides political actors enough political flexibility to create leeways for themselves. Out of a single principle, two contradicting objectives could easily be derived.

The second dimension is the *objectives*. Objectives are any goals or aims that the institution deems necessary to achieve, and design and implement policies accordingly.

Third, if the objective is *what* is to be reached, instrument is the *how* – *instruments* are any parts of the policy that are employed to reach the objectives.

Lastly, *procedures* include any standard operating practices, formalities, sequences, and bureaucratic mechanisms used when policymakers are trying to achieve an objective. Naturally, all four dimensions in this policy structure are interrelated, especially empirically. The data for one also tells something about the other. However, there is an analytic distinction that makes each of the possible and useful conceptual and operational tools.

2.2.3. Formality of Institutional Change

Next, I discuss if a change is formal or not. I took the formality of change as self-evident. If any written rule, whether in the form of the constitution, national legislation, international treaties, regulations, by-laws, had been changed, I considered it to be a formal change. Otherwise, whenever the customs, traditions, unwritten but standard operating procedures, principles were changed, I took it as informal. Determining the (in)formality of an institutional change is important for two reasons. First, informality of a change usually suggests that it has been gradual as well. Thus, determining the informality of a change greatly improves the operationalization of the modes of change that I discuss in the next section. Second, determining the formality of a change helps me determine which sources to use while investigating the change, i.e. whether to use legislation or other sources I listed in Chapter 1.

2.2.4. Mode of Institutional Change

If a change turns out to be piecemeal, that means it usually is an informal change as well, or at least it has an informal side to it. When changes are abrupt, it is easier to describe them. Usually, as in the case of 2001 reforms in Türkiye, for instance, almost everything about an institution changes, they are often replaced altogether. That is the logical conclusion of punctuated equilibrium. When an institution fails to maintain the relatively stable environment and the set of conditions that perpetuate the stability, it is only natural for most of the things about the institution to change. However, with gradual and piecemeal changes, the situation is different. When change is “hidden” or has a “hidden” face or when the actors obfuscate the process of change, it is much harder to pinpoint what has changed in the institution, and to what extent. Hence, we need more precise analytic categories to study change. Mahoney and Thelen (2010) provide us with such a typology under which they study the gradual institutional change in four analytically distinct yet not mutually exclusive overlapping categories: *drift*, *conversion*, *layering*, *and displacement*. In the remainder of this section, I would like to explain these four categories.

Drift refers to a situation when the formal rules governing an institution or behavior remain unchanged but the original purpose and the initial impact of these rules lose their effect because of a change in the environment (Mahoney and Thelen). When the political actors do not alter the institution according to the new environment, drift occurs. A famous example would be the minimum wage laws in some advanced industrial societies, most notably the US. When the minimum wage laws were first implemented, they guaranteed every wage earner a living standard. However, when the minimum wage is not adjusted to changing circumstances, such as rising inflation, then it becomes obsolete. It remains a formal rule but it ceases to serve its original purpose and maintains its initial effect: to establish a minimum level of living standard for the least-earning portion of workers. Hacker (2005) provides a good example of how drift can cause

Drift may occur when there is a gap between the written rules and the enforcement of these. This is sometimes due to the relationship between rules and ideas that I discuss in the previous section. Often, policies are structured by the ideas and the needs of the actors. For instance, when I talk about the drift of a certain objective in the CBRT, that usually comes with a changing idea. Whenever the government changes its “mind”, it may not always change the legislation accordingly. However, the execution and the implementation of a written rule always change. That change brings about institutional change. Yet, the change in the implementation may be less observable than others. Sometimes political actors react by doing nothing. Action in policy-making can always be in the form of inaction. That is exactly what creates drift. Whenever an institution starts to lose its impact and become obsolete, it is up to the actors to make it effective and relevant again. Whenever the political actors, and in our case the government, chooses not to do so, drift occurs.

Conversion is similar to drift. Just as in the case of drift, in conversion the written rules remain the same but are interpreted in new ways (Mahoney & Thelen, 2010). Onoma (2010) calls this “the contradictory potential of institutions.” Unlike drift, conversion requires actors within institutions who try to interpret and implement rules in different ways, often against the original purpose of these. Whereas Onoma (2010) provides a case study where conversion is a negative, harmful force that undermines an institution; Falleti (2010) provides a case that suggests otherwise. Falleti's arguments point out that conversion can also help actors reach their goals and reinforce institutions.

I use both conversion and drift in this thesis as modes of changes. Since this is a case study, I also tried to operationalize them in a standardized way however this part of the literature remains understudied. They are difficult to operationalize precisely because of what they are conceptualizing: a hidden face of institutional change. Thus I tried to operationalize them in a logical way. I used *reductio ad absurdum* combined with an abductive logic. First, I tried to show that there has been a change. I then assumed if that change is not through a critical juncture, then it must be in the form of gradual change (*reductio ad absurdum*) since there would be no other choice. Afterwards, I tried to pick the best-fitting option among the four (drift, conversion, layering, and displacement) for the changes I observed.

Hacker, Pierson, and Thelen (2015) in their theoretical take on the issue, state that drift and conversion are very common and consequential in established democracies and advanced industrial societies. I argue that emerging market economies and developing countries are much more prone to adopt these “hidden faces” of institutional change. Usually, policymakers (bureaucrats and politicians) of emerging market economies are faced with a basic dilemma. The domestic factors which are mostly on the national level, and the international factors usually clash so frequently and intensely that these political actors usually have to bend the rules so that they could get what Sheingate (2010) describes as “creative leeway.”

Layering is the implementation of new rules on top of already existing ones. This is different from drift and conversion in the sense that layering does not render the former rules obsolete or overruled but revises and reforms them (Mahoney and Thelen, 2010). However, when the reform or the amendment to a rule modifies something substantial about it, layering could be a powerful mode of change.

Displacement can be in the form of abrupt and radical change, the type I discuss in the previous section. However, it can also be a slow and piecemeal process. This is especially for situations in which the new institutions can replace the older ones but these older institutions still have the power and capacity to “hold their ground.” Therefore, displacement can be a long, drawn-out conflict between two sets of institutional configurations.

Layering and displacement are also used in this thesis. Since they are relatively easier to operationalize, the sections involving them are also shorter. A certain methodological difficulty was demarcating *displacement* from critical junctures. When in doubt, I have decided not to explicitly appoint any form to change but only analyze it without including it in any specific form of change.

CHAPTER 3

TWO FACES OF INSTITUTIONAL CHANGE

IN THE CENTRAL BANK OF THE REPUBLIC OF TÜRKİYE

3.1. The Critical Juncture: 2001 Reforms

In this section, I discuss the 2001 reforms that I consider to be the result of a critical juncture. I commence by outlining the conditions under which the State Minister Responsible for the Economy Kemal Derviş engineered the path breaking reforms. I also try to explain how Derviş, as a policy entrepreneur, was able to serve as a bridge between exogenous pressures and endogenous constraints. Then I list the changes in the legislation and written rules. Finally, I try to determine the principles, objectives, procedures, and instruments to which this critical juncture has led.

During the economic turbulence of the 1990s, there were some attempts to ameliorate the situation such as the controversial decisions of April 5, 1994, or the Staff Monitoring Program (Close Monitoring Agreement) of 1998 with the IMF (Milliyet, 1998), both of which were ultimately unsuccessful (Yeldan, 2016: 159-161). The “April 5” decisions brought about reforms in the area of monetary and fiscal policy. These decisions called for efficient public budgets and austerity to a certain extent (Altınok and Çetinkaya, 2001: 151-152). There is widespread consensus in the literature that the reforms were unsuccessful due to the political reluctance of the government. The undersecretary of the Treasury between 1999 and 2001, Selçuk Demiralp, also voice this claim (Aydoğdu and Özener, 2007: 41-43). This political reluctance is key in explaining the success of the implementation of reforms by Derviş. He had the political momentum with which he combined his meritocracy. As I explained above, he was both “immune” to the corrosive effects of daily politics but also an integral part of it. To top it all off, there was little political reluctance. Even Prime Minister Bülent Ecevit, who is often quoted as the least enthusiastic politician in government about Derviş, had no choice but to back Derviş and his reforms. Their subsequent falling out would take place so much later on.

3.1.1. Kemal Derviş and the Reforms

The famous, and for some the infamous, reform of 2001 spearheaded by Kemal Derviş came indeed at a critical juncture. Not only has the reform changed the legislation and the formal rules regarding monetary policy, it also affected the standard operating procedures and the informal rules, and the way the bureaucracy interprets these rules. However, before evaluating the 2001 reforms as a critical juncture *per se* three points must be clarified.

First, a part of the literature on the reforms considers Derviş to be a policy entrepreneur (Bakır, 2007; Derviş, Asker ve Işık, 2006). Following the footsteps of John Kingdon (2014) the literature suggests that Derviş was a policy entrepreneur, and being a member of the *epistemic community* enabled him to use an extensive network to realize reforms at home by finding support on both national and international levels (Bakır, 2007; Bakır 2009). Naturally, this was only possible due to the political climate that started to take shape in the financial crises of the 1990s. In other words, Kemal Derviş was the policy entrepreneur who was able to use the window of opportunity provided by the exogenous constraints and endogenous pressures. Simply due to space constraints, I am not interested in the details of the entrepreneurial side of Derviş. Suffice it to say, his connectedness with the rest of the epistemic community and his vast network among internationally influential economists has granted him extraordinary powers enough to be the impetus behind all these reforms (Derviş et al., 2006; Bakır, 2007).

Second, I consider the 2001 reforms as a result of both exogenous and endogenous pressures. Derviş and his reforms were highly controversial and his sudden arrival to the political scene without being elected to any public office did not help with the criticisms he received. An interesting example illustrates this point. The relationship between Kemal Derviş and Bülent Ecevit, then the Prime Minister of Türkiye, has been a very controversial topic. Some journalists claim that Ecevit, towards the end of his office, actually started to consider Derviş responsible for the schism that occurred in his party (Çetingüleç, 2018). All of these lead me to think that Derviş was indeed a bridge between the exogenous and endogenous pressures. The former was created by the international financial markets and the Bretton Woods Institutions. This was at times the IMF and at times the World Bank. However it is important to note that in emerging markets like Türkiye in which crises are frequent, the IMF usually becomes the dominant external actor (Öniş and Şenses, 2005: 280). The endogenous pressures for reform were the demands at home stemming from pressures of inflation, unemployment, and recession. Yet, for politicians, the most alarming concern has always been the possibility of not being able to pay the wages in the public sector (Turkish: *Memur maaşlarını ödeyememek*) (Akyol, 2022; Aydoğdu & Yönezer, 2007)

Third, Derviş had incentives and initiative. Even before he took office, he was dubbed “the Super Minister” (CNN, 2002; Özkök, 2001). He spearheaded the reforms for the government. He was not your regular state minister with limited room for maneuvering. Effectively, he held much more power. I believe the situation could be most accurately described as that Derviş was working *in the name of and for the government* but he was autonomous. To prove this point, I believe it is sufficient to show that the famous laws of 2001 were naturally sponsored by the government but were in fact drafted and supported by Derviş. This became much more evident when some of the members of parliament belonging to the ruling government actually resisted some pieces of legislation in the parliament.

After the failed reform attempts of the 1990s, the next financial crisis was so much worse that Derviş envisioned a program that actually addressed the structural programs of the Turkish economy (Pamuk, 2018). This was supposed to be different from the palliative treatments of the previous decade, hence Derviş offered a radical solution. In order for the proposed payment from the IMF to be received, Derviş proposed that 15 laws be passed within 15 days (Hürriyet, 2002). The whole process lasted from April to November, which considerably exceeded the deadline of 15 days, but was nevertheless successful. The legislation on central banking, No. 4651, was one of the most significant. It was passed by the parliament on April 25 and ratified on May 4 (Hürriyet, 2002). The most important point was the political independence of financial institutions, naturally, the Central Bank being the most important. The main aim was to prevent the executive from deriving power and credit from public banks. The most crucial point was to prevent the Treasury from borrowing from the Central Bank (Pamuk, 2018). In other words, the new law tried to make sure that central banking and monetary policy would not serve any short-term plans for any government. Yet, as this thesis argues, the legal framework would not be enough for this. In the everlasting tension between rules and discretion, it was the discretion, and to a certain extent forbearance, on part of the Executive that provided the Central Bank with the independence, it gained through legislation. As could be observed after 2010, without any significant changes to the legislation, the Executive, and the Treasury, in particular, were able to remarkably limit the political and even the economic independence of the Central Bank.

3.1.2. The Changes in the Legislation

The Law on the Central Bank of the Republic of Türkiye, Law No. 1211, as amended by the Law No. 4651 on April 25, 2001 (The Law on the Central Bank of the Republic of Türkiye (Law No:1211). Almost every substantial formal change during this period happened with the power of this law. The most critical change was to the fourth article, describing “Fundamental duties and powers”. It is very clear and leaves little place for any discretion or interpretation: “The primary objective of the Bank shall be to maintain price stability.” (Law No. 1211, as amended by Law No. 4651) As described in the previous chapter, this article alone gives CBRT its political independence. The article also gives a “creative leeway” to the political actors in the words of Sheingate (2010). The same article also introduces the economic (instrumental) independence by saying that the “...bank shall determine on its discretion the monetary policy that it shall implement and the monetary policy instruments that it is going to use to maintain price stability.” (Law No. 1211, as amended by Law No. 4651) Law No. 4651 amended more than 15 articles of the original Law No. 1211 (which had originally 71 articles), repealed seven articles from it and added two provisional articles. Let me illustrate some of the significant legislative changes.

The most crucial amendment, as mentioned above, was to Article 4. Both political and economic independence were given explicitly, but also *vaguely*. Because while it clearly states that the primary objective would be to maintain price stability, as it is seen after the 2010s, almost any policy could be presented -obfuscated even- as a measure to obtain or maintain price stability. Even when it is not possible to do as such, the law clearly gives CBRT the right to support the government's growth and employment policies *provided* that it does not conflict with the objective of price stability. This makes the *conversion* strategy much easier: This way the government does not have to prove that a policy is *in favor* of price stability but it merely has to prove that it is *not against* it. Many sub-articles of Article 4 were amended many times after 2001, the most recent being in 2019. However, the first part of it, the statements which wield the CBRT with political and economic independence, remains unchanged. This raises one of the main questions which I try to answer: Why would a government, which has the support of the majority in the parliament and is also able to exercise control over the Central Bank, not change the legislation regarding this?

Article 13 is directly about the organization of the Bank. The important part of the amendment is the establishment of a Monetary Policy Committee (MPC) (Law No. 4651) which is a clear change in procedures. The procedure of selecting the appropriate instruments to exercise inflation targeting -and consequently maintaining price stability- is effectively left to the MPC.

The amended Article 22 regulates the Board. The most important amendment (to the sub-article h), provides the Board with the authority to determine the procedures and principles regarding the transfer of the balance to the Treasury after the profit has been allocated. Clearly, the sub-article is a bureaucratic precaution against the *fiscal dominance* that the Treasury has long been executing. Yet, as it is seen, this has not prevented the Treasury and the Executive, after the 2010s, from enforcing their agenda and using their own instruments and procedures. I would like to remind that the law, wielding the Board of the CBRT with such autonomy remains in effect and has not been changed. A more important amendment to Article 22 for the scope of this work regulates the MPC. The MPC is the backbone of any independent central bank, to the extent that sometimes entire central banks are converted into MPCs in themselves (TCMB Baş Hukuk Müşavirliği ve Hukuk İşleri Genel Müdürlüğü, 2001).

These changes in the legislation were followed by other changes in the economic structure of the Turkish economy. Many markets, most significantly tobacco and sugar, were deregulated in line with the market principles. I can only assume that these were made with the hopes of diluting fiscal dominance, but as I show in the next sections, with little to no realization.

The initial dimensions of this process were shaped after the reforms. The principle of Europeanisation was officially adopted and an inflation targeting regime was put in place. Price stability became a central objective for the Central Bank and its independence was ensured by law. The procedures of the central bank became much more regular. The term of office for each post was fixed and the selection, as well as the announcements for these, were regulated. In line with this, the CBRT started to make efficient use of institutional communication to convey messages to the market as part of monetary policy. Last but not least, this period initially saw incredibly high policy rates (at one point it reached 100%) but as reforms were put in place, the rates went down.

As I explain in the next section, some of these changes were retracted and some of them changed. But the change has not happened suddenly, resembling a critical juncture as was the case in 2001. There was a gradual, piecemeal institutional change. Next, I explain how this came to pass and I analyze the change in four dimensions.

3.2. Gradual Change and Four Dimensions

This section discusses the four dimensions of the policy structure where I detect gradual institutional change in the CBRT: principles, objectives, procedures, and instruments. For each dimension (except for the procedures) I present two separate articles. I argue that in all of these dimensions, gradual but substantive changes have taken place. I also argue that each of these changes could be categorized under different modes of change. I would like to note, however, that all these dimensions are categorized under gradual institutional change. My main argument is that after the 2010s, contrary to the 2001 reforms, the pace of change has been incremental. The best way, I believe, to conceptualize and operationalize this change is through analyzing analytically distinct but empirically interconnected dimensions.

3.2.1. Principles

I aim to discuss four principles of the CBRT, in groups of two replacing one another in time. I argue that the economic turbulence of the 1990s has created huge support for Europeanisation both among policy-makers and the general population. This trend continued, if it was not reinforced even further, in the early 2000s (Bolukbasi, Ertugal and Ozcurumez, 2018). However, by the early 2010s, Europeanisation of policy-making started to fade away. The government's new economic plans and programs merged with the rising anti-European sentiment in certain parts of society. This paved the way for a new principle which is best summarized in the mantra of "Local and National Economy" (Turkish: *Yerli ve Milli Ekonomi*). The mode of change I detect in the policy principle is *layering*.

The second set of principles is fighting inflation and growth orientation. Starting with New Zealand, during the 1990s many countries started to switch to an Inflation Targeting regime (Fry, Goodheart & Almeida, 1996). Türkiye, albeit with a delay, jumped on the bandwagon. The inflation targeting regime has been in place in Türkiye for almost two decades now and remains to be so, nominally and formally. However, I argue that fighting inflation, as a principle, has been subjected to *drift*. It remains a principle in the books, but as I explain in detail below, growth orientation and export promotion have become more important principles. The mode of change is *drift*.

I must note that all these principles are also related to the stability culture. Some even argued that for low inflation (inflation targeting) to be achieved, stability culture is also necessary (Hayo, 1998), meaning central bank independence (the procedural aspect) would not be enough on its own to achieve a principle. Of course, a principle is always in interaction with another principle. Stability culture, growth targeting, and inflation targeting have been in a feedback loop since the late 2010s. However, as a principle, I tried to limit the debate to inflation fighting in the technical sense of the term.

3.2.1.1. From Europeanization to Nationalization and Localization

Europeanization has always been the main tenet for Türkiye at least since the early republican times. But it is important to note by the 1990s and 2000s, the old, and somewhat abstract agenda of development and "catching up with the civilized world" had been solidified, in the terminology of the EU

(Maastricht criteria and chapters of accession negotiations among many others). During this period Türkiye’s macroeconomic policy started to mirror the EU policies. There are a variety of reasons for this.

The 1990s were a time of economic hardship and constant economic turbulence in Türkiye. The economic recession and the two crises Türkiye went through had taken such a toll that Boratav (2019) calls the period between 1998 and 2002 “the five lost years”. It was also a transformative time, vis-a-vis its relations with the EU, and the macroeconomic policy. The Customs Union between Türkiye and the EU, which had been in constant negotiation and planning since 1963, entered into force in 1995 and Türkiye officially became a candidate country in 1999 (European Commission, 2021). These developments and Türkiye’s accession bid to the EU had a dramatic impact on its macroeconomic policies, especially the monetary policy. And since those times, especially the 1999 Helsinki summit, research on the impact of the EU on Turkish policy-making has drawn much attention (Bolukbasi, Ertugal & Özçürümez, 2010). Europeanization was to become a very influential principle in Türkiye in the 1990s and the following decades.

The EU's own macroeconomic policies, in turn, have been shaped to a great extent by the introduction of the Economic and Monetary Union (EMU) (Balkır, Bolukbasiı & Ertugal, 2013). Naturally, this led monetary policy and central banking in Türkiye to be one of the main areas in which Europeanization was felt strongly. In a speech he gave in Vienna, Gazi Erçel, former Governor of CBRT, tells how the Turkish economy was in close relation with the Euro and its monetary policy due to both close political and economic relations (Erçel, 2000). His prediction that the Euro would affect the Turkish economy more and more has been proven to be true, many times. This symbiotic relationship is so much emphasized that Erçel (2000) argued that the prospective success of the struggle against inflation hinged on the potential integration of the European and Turkish economies. This emphasis on Europeanization only increased after the 2001 reforms. Süreyya Serdengeçti, while underlining the importance of the new legislation and explaining how it paves the way to an independent central bank, price stability, and a less dominant fiscal system, constantly referred to the European monetary policy and the famous Maastricht Criteria (Serdengeçti, 2001). This trend of Europeanization continued for such a long time with such an intensity that the literature discusses it as “the EU anchor.” (Öniş & Bakır, 2007; Bolukbasi, 2012)

After the 2010s, however, the overarching principle of Europeanization was slowly replaced with the ever-increasing emphasis on the “local and national”. Berat Albayrak, former Minister of Treasury and Finance, claims in his memoirs that Türkiye was under a great deal of foreign-backed or directly foreign attacks leading Türkiye to adopt a new economic program in which the Ministry of Treasury and Finance undertook greater responsibilities (Cumhurbaşkanlığı, Yeni Ekonomik Program, 2020). As for the motive of the program, it is impossible to know whether foreign financial attacks were the real reason for the shift. Yet, we know with this new principle came many related initiatives. “*Enflasyonla Topyekûn Mücadele*” which could be roughly translated as the “Total War on Inflation” initiative, followed by the formation of “Task Force for the Struggle Against Inflation” [Turkish: *Enflasyonla Mücadele Timleri*] are in line with this changing principle. All of them include references to a national struggle against the harmful effects of inflation and price instability.

Perhaps the gap could be explained by the Turkish policy style that has been described as “statist” referring to the dominance of the continental legal system or even “Napoleonic” reminiscing the way the French state interacts with business interests (Bölükbaşı & Ertugal, 2019). Here, the statist policy style in Türkiye may have allowed an easier transition from Europeanization to nationalization. It must be noted, however, that this transition is made on the level of principle. The extent to which this principle has been implemented, if at all, is highly debatable. Normally, we would have expected some central tenets of protectionism or *dirigisme* to have accompanied the discourse of “local and national”. It seems that the rules, objectives, and instruments regarding customs, trade and foreign trade seem to be in line with the previous decades. Combining this with President Erdoğan saying that “Türkiye remains committed to its accession bid” (Anadolu Agency, 2022) and suggesting that the EU must care for Türkiye’s accession as much as it does for Ukraine’s (Euronews, 2022), it appears that Türkiye has not completely given up on Europeanization as a principle.

Determining whether the discourse of the “local and national” economy is an attempt by the government for reinforcing its position within domestic politics, or if it is a genuine attempt to reorient its macroeconomic policies is beyond the scope of this thesis. What is certain, however, is that Europeanization in Türkiye is not as strong as in the early 2000s and it has a formidable rival, at least in the abstract level of principle.

Referring to all of the above I argue that there has been a *layering* in the principles. Europeanization is not formally overruled or abolished but the new principle of the local and national economy was implemented on top of it, rendering the previous principle less visible and to a degree, less effective.

3.2.1.2. From Inflation Targeting to “Growth Targeting”

Inflation targeting, as a macroeconomic policy regime, is an encompassing framework favoring certain instruments to be used to achieve certain goals, the most prominent being price stability. Although the standard literature calls it a *policy regime*, it is also in line with the definition of a *principle*. Therefore, I have used the terms *policy regime* and *principle* as interchangeable for the analysis of inflation targeting.

Inflation targeting, closely related to the monetarist agenda, has been implemented first in advanced industrialized societies and then in emerging markets although for the latter group the process has been more tumultuous (Öztürk & Biner, 2008). Inflation is undesirable, almost by definition, that is a given for all governments, especially ones which compete in elections. All developing countries, to some extent, include inflation targeting as part of their formal framework (Fry, Goodheart, & Almeida, 1996)

After inflation targeting has become the policy framework in Türkiye, implicitly after 2001 and officially after 2006, price stability was the primary objective of monetary policy and consequently, central banking (Başçı & Kara, 2011). Of course, there are many problems with implementing inflation targeting in developing countries and emerging market economies, an important one being the existence of fiscal dominance and the lack of a strong financial system (Kara & Orak, 2009: p.109-111; Mishkin 2000).

The adoption of inflation targeting as a principle was definitely an incentive on the part of the government since the whole plan was announced by the Minister of State Responsible for the Treasury (Acet, 2009). This fact further demonstrates the idea that both the political and the economic independence of CBRT was actually possible due to the open consent and support of the executive. In other words, the government has exercised forbearance for the CBRT to be independent. As discussed in this chapter, once the Executive, the Treasury to be more precise, has decided that inflation targeting may not be the overarching *principle* anymore, the inflation has gone considerably higher.

Here, I feel obliged to give reference to President Recep Tayyip Erdoğan's famous claim that higher interest rates lead to inflation. Despite popular belief, Erdoğan was not the first political figure in Türkiye to have advocated and implemented such a monetary policy. A very similar principle was upheld in 1994 which, to no one's surprise, ended in an economic crisis (Eğilmez, 2021). However, it must be noted that at the time the floating exchange rate system was not in place and the government was formed via coalition. Thus, the 1994 coalition led by Tansu Çiller (who is an economist by training) did not have the means to advocate and implement these principles. Yet, Erdoğan had a much greater political influence and power, especially with the new presidential system.

Nevertheless, this reversal in the direction of causality between the interest rates and inflation has been one of the dominating mantras of Turkish macroeconomic policy-making for the past decade. This has important ramifications. First, it shows that Türkiye, under Erdoğan’s government, still considers inflation as a serious problem to deal with but only as a direct outcome of higher interest rates. Second, with interest being a reason for inflation, all the instruments and many of the objectives, for obvious reasons, have to change. Trying to raise the policy rate would be simply ineffective so the government searched for a solution within fiscal policy.

Therefore, official documents suggest that the inflation targeting regime is, *de jure,* still in place, even at the time of writing in 2022 (TCMB, 2022a). Here, one can see the clear distinction between the *formal* and the *informal* rules. The formal principle, inflation targeting regime, remains whereas in practice TCMB and the Executive are designing and implementing macroeconomic policy towards creating a current account surplus, increasing net exports, and promoting economic growth in general.

The formal principle of inflation targeting has been subjected to *drift*, a concept I explain in Chapter 2. I consider it drift on the grounds that this principle has remained in the books, in formality, but the accompanying instruments and the objectives (and targeting) have changed. For the critical juncture enthusiast, this would not be accounted for a change. First, the written rules have *not* changed, whatever change exists is entirely informal. Second, change has been incremental. In 2022, with hindsight, one can clearly observe that the inflation targeting regime is *de facto not* in place anymore. Yet, there is no consensus on when this change started, peaked, and ended. It has been an incremental change, in a manner completely opposite of what happened in 2001.

Nothing particular has actually replaced the inflation targeting principle except for what I can best describe as “growth targeting.” Top policymakers started to give remarks about the importance of economic growth and explain how combined with a healthy current account balancing, it could lead the economy out of the crisis.

Still, when inflation targeting is examined on its own, it seems that it has been subject to drift. The formal standing of the principles in the legislation and official documents remained the same as before but the focus has shifted to growth targeting, accompanied by a publicly declared desire for increased exports. However, the inflation targeting regime was not repositioned, rewritten, or reorganized in any novel way to make it more suitable for changing circumstances. Therefore, I argue that there has been a *drift*.

3.2.2. Objectives

This section is about the changing objectives of the CBRT. First, I argue that the objective of price stability was subjected to a *conversion*, essentially being replaced by a somewhat vague objective of reaching a current account balance. Second, I argue that the objective of maintaining an independent central bank was replaced by the objective of a central bank that is coordinated with the government.

3.2.2.1. From Price Stability to Current Account Balance

The CBRT defines inflation as the “persistent increase in the general level of prices of goods and services in an economy” and describes price stability as a low level of inflation that does not influence the decision-making of economic actors (TCMB, n.d.a). This understanding of inflation and price stability is quite standard in the literature. Price stability generally refers to single-digit and low levels of inflation, making the risk of inflation negligible (Kara & Orak, 2009: 81-85). Moreover, price stability is usually accepted as a necessary condition for social and economic stability (Kara & Orak, 2009: 81-90). As mentioned in previous parts, the primary objective of CBRT is maintaining price stability (Law No. 4651). This has been the law of the land for many OECD countries since the 1990s, at least since the relationship between inflation and growth has been reconsidered and reestablished, weakening some of our earlier convictions (Fry, Goodheart, & Almeida, 1996: 4-17). In other words, the main principle of stability culture and inflation targeting could be achieved through price stability. In this section, I discuss how price stability remains an objective for the CBRT, but is not as significant as before. Instead, trying to establish current account balance and deficit financing has become an important objective. However, it is important to note that once again the changes regarding this objective have been piecemeal and more often than not, informal.

The new objective of CBRT was laid out clearly: it was announced by the Bank's officials that if the current account deficit were to be removed from the equation, then there would be price stability and the fluctuations that come with the currency crisis would also be over (Habertürk, 2021). However, the official statement by the CBRT is that there are four main factors leading to inflation (Demand-Pull Inflation, Cost-Push Inflation, Money Supply, and Inflation Expectations) (TCMB, n.d.b.) none of which is in direct relation to the current account deficit. This presents further evidence for the argument that this change in the objective is still very much informal. Moreover, the formal objective of price stability is still in legislation, and much has not changed. It is still such a prominent objective that as of 2022, the header of the CBRT's official website reads: “The primary objective of the Bank is to achieve and maintain price stability.” a phrase borrowed from the legislation with slight rephrasing which has served as a mantra of the Bank since 2001. Although stability culture, price stability, and inflation targeting are quite related to one another, it must be noted that price stability does not have to include the other two. For instance, the German Central Bank, Bundesbank, does not explicitly declare an inflation target, but the public has been usually aware that at least until the 2010s, the Bank has tried to limit the yearly inflation rate to 2% (Kumcu, 2009). This was mostly due to Bundesbank's institutional communication. I further discuss the importance of conveying messages to the public, as an instrument in the following sections. What should be noted at the moment is that price stability does not have to involve inflation targeting but in Türkiye, that was the case. Nominally, it still is. Yet, as I try to explore below, in practice price stability has become a less important objective. This was due to a new idea by the CBRT and the government suggesting that unstable levels of prices and the currency crisis are not problems on their own, but rather they are natural outcomes of other, more serious problems, mainly the interest rates and the current account deficit. I discuss the former in other chapters (in *principles* and *instruments*) whereas I try to explore the latter just below, in this section.

Şahap Kavcıoğlu, the CBRT's governor, stated that the current account deficit has been detrimental to stability in the past and Türkiye now has a great opportunity to finance that deficit (Buzcugil & Kaya, 2021). The Ministry of Finance and Treasury objected to this plan. Former Minister of Finance and Treasury Lütfi Elvan, claimed that the current account deficit is a concern for the government, not the Central Bank (Süzer, 2021). Shortly after this statement, Nureddin Nebati was appointed as the Minister of Finance and Treasury, replacing Elvan. With this cabinet appointment, President Erdoğan clearly sided with the new objective that CBRT had set. Of course, there were other reasons why Elvan was replaced, the most important being his views on policy rates, this was clearly a sign that the government actually considered the current account deficit to be a more important problem.

It is noteworthy that with the current account deficit being declared the main issue at hand, the government effectively describes the issue of price stability as a fiscal one. Not only this further strengthens the argument that there is a *fiscal dominance* of some sort in the Turkish political economy, but also it proves that Turkish monetary policy further drifts away from the tenets of monetarism. The Friedmanian conceptualization of inflation as an exclusively monetary phenomenon has been effective over central banking for many years. But now, it seems policy design in Türkiye does not follow that path anymore, at least for the time being. It seems that the objective has been subjected to a *conversion* on the grounds that the legislation remains as it is but not only it does not serve to realize its original purpose but it is also actively interpreted in such ways that it helps fulfill other objectives such as establishing a current account balance.

3.2.2.2. From Independent to Coordinative Central Banking

In this section, I briefly discuss how, by the early 2010s, the central bank independence which has been under the protection of the law has undergone considerable erosion and decline. Following the literature on piecemeal and incremental change, I try to show how these changes occurred slowly but surely. I then try to conclude by claiming that the CBRT has become much more coordinative with the Ministry of Finance and Treasury, and the government in general, ready to help it fulfill its agenda.

I have identified Central Bank independence to be an objective *in* and *of* itself because central bank independence or at least a policy design aiming for an independent central bank has been an objective for both advanced industrial societies and developing countries since at least the 1990s, in line with the principle of inflation targeting. It could have also been considered as a procedure but I have identified the Monetary Policy Committee to be a more accurate procedure. As a more general and abstract category, I suggest that an independent or a coordinative central bank is an objective. As is the case in the literature, I examine such independence or therefore the lack of it in two ways. First, I explore whether CBRT has protected its political independence in the sense that it can and still does set its objectives, goals, and agenda. Second, I look at its instrumental independence in the sense that if and how the Bank has the capacity to determine the tools and policies through which it tries to achieve these objectives, goals, and agenda. Following the literature I have briefly outlined in the previous chapter, I also call the former type of independence political, and the latter, economic.

With the reforms in 2001, Türkiye actually exceeded some expectations. Studies suggested that central bank independence correlated with political systems that resembled federalism and an extensive checks and balances system (Moser, 1999; Farvaque, 2002; Pistoresi, Salsano, & Ferrari; 2011). Türkiye does not have the first criteria at all and ranks average at best in the second criteria. Yet, according to the World Bank data Türkiye, starting with 2001, had *higher* levels of nominal central bank independence than all of the

G7 countries, several of which have federal systems and also a better-ranked checks and balances system (World Bank, n.d.). Nominally, it still ranks higher than most countries, as of 2022.

As it is mentioned before, the independence of a central bank refers to the independence from the executive and the political authority. For a central bank to be considered independent, it should be able to determine and implement monetary policy both politically and economically independent of the government. Independence from other institutions such as but not limited to Bretton Wood institutions (the IMF and the World Bank Group), international markets, and other central banks are not usually accounted for when determining, and if possible measuring, the independence of a central bank. The same goes for coordination. When I evaluate whether CBRT is coordinative, I explore its relations with the executive, specifically the Ministry of Finance and Treasury. The most important aspect of that relationship is whether the Treasury could borrow from the Central Bank. In many countries, this practice is not allowed on the grounds that it may harm fiscal discipline (Eğilmez, 2016: p.104-105). Turkish central banking, with the authority of law, also prevented this. However, especially with the famous protocol of 2017, this was reversed. There seems to have been a *conversion* of some sort.

As is the case with principles, I argue that the change in the objectives of CBRT has *not* been nominal. The dramatic change in the compliance of CBRT with the executive does not match the changes in the legislation. Demiralp and Demiralp (2019) eloquently describe the way the government has put pressure on the central bank despite the legislation ensuring its independence. Just as this thesis argues, Demiralp and Demiralp (2019) also trace the erosion, not in the changes in legislation but the discourse of the government members, and quantitatively measuring the pressure these members put on the central bank they conclude that there was indeed a decay in the independence of central bank, starting by 2011, with a dramatic exacerbation in 2013.

Moreover, Nureddin Nebati, the Minister of Finance and Treasury, has recently claimed that there is “no such thing as an independent central bank and the responsibility lies with the politicians” in a meeting he held with economists (Muratoğlu, 2022). There has been no official refutation from the government concerning this declaration. Moreover, since institutional communication is such an important part of central banking, even the rumors that a minister suggested that the CBRT is not independent anymore, have created tension and commotion in the public.

Yet, of course, there are some vague changes in the legislation, and some additional rules have been implemented to ease and legitimize this process. Some of the important ones are below. A famous protocol was claimed to be signed on 21 February 2017, between the CBRT and the Ministry of Finance and Treasury. The extent and content of this protocol were not made public, therefore it is still widely debated. The CBRT’s official position is that a protocol was indeed signed but it does not violate any part of legislation (Kavcıoğlu, 2021). As far as the publicly available knowledge goes, this protocol allowed for assets transfer from the CBRT to the Treasury. Under normal circumstances, the CBRT has the ultimate authority on the transfer of such assets. The legislation (Law No. 1211 as amended by Law No. 4651) wields CBRT with instrumental independence but with the new protocol, this has been substantially reversed.

There have also been numerous changes in the law during the 2010s none of which erodes central bank independence. However, the formulation of the law allows creative leeway for the politicians to make use of, to rephrase Sheingate (2010). The idea that governments can bend certain rules and create a leeway to attain short-term gains is well discussed in the literature. Kydland and Prescott’s (1977) famous article suggests that even the best laid plans are susceptible to disruption by a government with a different political agenda. Indeed, lack of political feasibility is cited as one of the most common reasons for not being able to establish monetary stability (Persson & Tabellini, 1993). In other words, it is deemed difficult to maintain price stability without ensuring that there would be no disruptions to the monetary policy designed beforehand. A policy design addressed to maintain price stability, a reorientation of policy, is usually unattainable, due to *incentive problems* (Persson & Tabellini, 1993). The case of CBRT poses a much more extreme example on the grounds that the government has tried to circumvent the rules and regulations of an already independent central bank. What Kydland and Prescott (1977) wrote as “Rules Rather than Discretion” turned into “Discretion Rather than Rules”.

Hence, the objective of an independent central bank has been subjected to a *conversion*, in the sense that the rules are still there but they are interpreted in such a way that it does not serve the intended, original purpose of a rule.

3.2.3. Procedures

This section explores a changing procedure of the CBRT that is the frequency of high-ranking bureaucratic appointments and their announcement methods. After the 2001 reforms, the government had exercised forbearance on some of its authority to intervene with the procedures of the central bank. As previous chapters show, whenever the political authority was able to circumvent formal rules and create a leeway for it to achieve its own goals whenever it truly wished so. I discuss two procedures. I explore the change that occurred in the procedures of appointments and related announcements. I argue that there has been a *displacement* in the decision-making of the government in its appointment and announcement methods for the bureaucracy in the CBRT. As opposed to other sections for dimensions, I will only discuss one procedure.

Delegating the responsibility of monetary policy making, most commonly in the form of bureaucratic appointment, is a political process and is actually drawing much attention in the political science literature (Ainsley, 2017). It draws the attention of political scientists because appointments made to the highest ranks of the bureaucracy may seem meritocratic and even technocratic at times but usually there is a certain politics to it. The realization of this is not new. At least since Hugh Heclo's (1977) seminal work, *A Government of Strangers*, we are aware that even the most seemingly meritocratic appointment is political by nature. These observations have been further studied and Lewis's (2008) *The Politics of Presidential Appointments* remains a prominent study. This situation is sometimes studied under the concept of "politicization of civil service" and is also studied under public administration. Rouban (2012) constructs a typology under three categories: i) politicization as participation in political decision making, ii) politicization as partisan control over the bureaucracy, iii) politicization as political involvement. I will be considering mostly the second category here.

The politicization of the civil service, more specifically the politics of bureaucratic appointments, is much more interesting when it comes to central banking and monetary policy. This is simply because of all of the technical aspects of the job (the econometrics, the complex mathematics of finance and economics, and many other seemingly inscrutable details of the job to an outsider), it seems that the appointments to central banks are the last place for politics to be considered. However, as I have tried to explain in Chapter 2, central banks are not only economic institutions but also political ones. Moreover, they are actively and constantly, either by action or inaction, (re)distributing power and resources. As Adolph (2016, p. 10) eloquently puts it, "central bankers are the most important political actors still veiled by the bureaucratic myth of neutrality." Therefore when one explores the appointments of higher-ranking bureaucrats to the central banks, and also the way their appointments are made public knowledge, one can never consider this as a simple bureaucratic appointment. Institutional configurations usually point to changes in power (re)distribution (Moe, 2005).

An important change is the frequency of appointments. The governors started to change so much faster. After the 2001 reforms, by law, the central bank governors served for a term of five years. As Figure 1 shows, Süreyya Serdengeçti, Durmuş Yılmaz, and Erdem Başçı were the three governors from 2001 to 2016, to have their five-year terms. The following three, Murat Çetinkaya, Murat Uysal, and Naci Ağbal did not complete their terms, in fact, each of them outlasted their successor. The current governor as of 2022, Şahap Kavcıoğlu, has, at the time of writing, been in office for over a year. Still, the shocking factor is that the *total sum* of the duration of the last four governors barely amounts to a standard five-year term (*See* Figure 1).

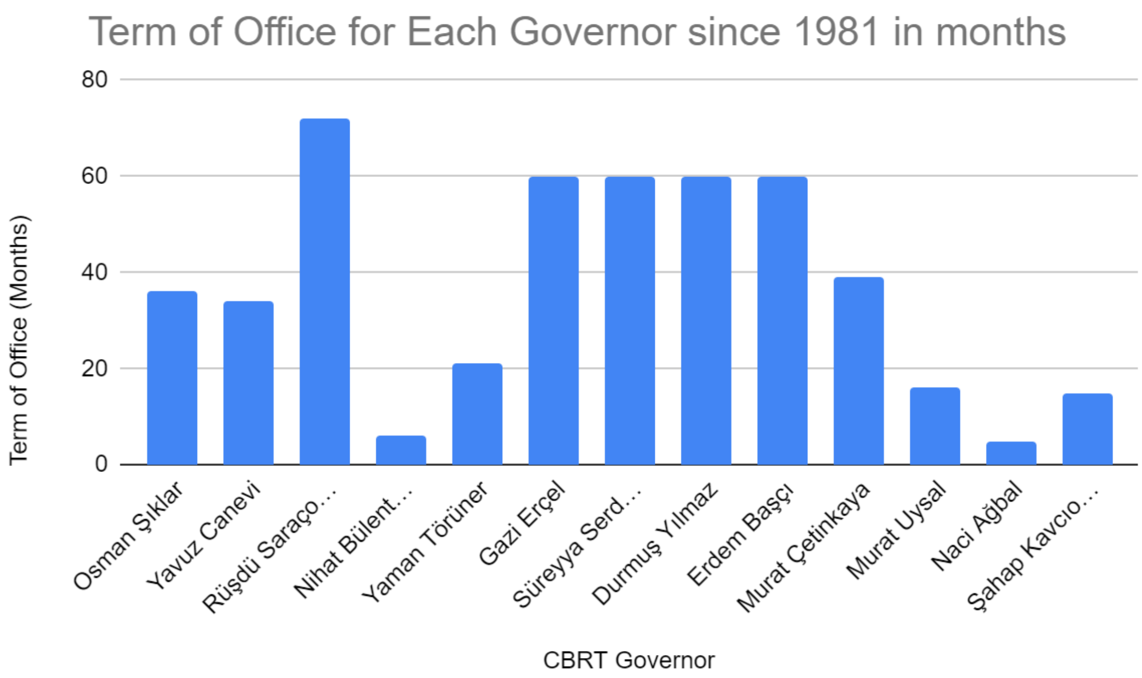

Figure 1: Term of office for each governor in the CBRT (in months). Data taken from the CBRT's website. (https://www.tcmb.gov.tr/)

What is even more striking about this figure is that one can infer that in times of deepening economic crises, the time in the office each governor spends decreases considerably. On whether there is causation, and if so about the direction of such causation, I cannot comment. Yet, it seems the duration of CBRT governors' service and the existence of an economic crisis seem to be strongly associated.

A review of print media suggests that the procedures regarding the change in appointments have been completely left to the president, as determined by Presidential Decree No. 3 (Akyol, 2022). This suggestion is on point but lacking. Before the constitutional referendum of 2017 through which Türkiye adopted a presidential system of government, the government in the parliamentary system of government still held a great deal of power and discretion over the Bank anyway. However, my argument is that in the decade following 2001, the government refrained from exercising this power, an example of “forbearance” that has been increasingly featured in the comparative political economy literature.

The appointment patterns for the vice presidents of the Bank look the same: the terms of office started to become shorter and shorter. Moreover, they are also being promulgated in the *Official Gazette*, without prior declarations to the public. An interesting piece of information is that the current governor, Kavcıoğlu, is one of the few presidents to not have been a vice president prior to appointment.

There have been media reports that the political appointments go far beyond the most high-ranking levels of bureaucracy but it also includes humbler mid-level posts (Sağlam, 2021). This becomes all the more striking when all these decisions are not publicly communicated beforehand and only implemented through presidential decrees.

The most important change in the procedures of appointments and announcements has been the switch to the exclusive use of presidential decrees and promulgation in the *Official Gazette*. An important change in the new presidential system implemented after 2017 was the disposing of the “cabinet” (Turkish: *Bakanlar Kurulu*) as a formal institution. With the new system in place, there is no cabinet and therefore no official cabinet meetings (Gözler, 2021), in the sense of the term the public has known. This had an effect on the discussions about political appointments, including the ones about the CBRT.

I observe that the dominant mode of change in the procedures is *displacement*. A rule was not formally governing the way the bureaucracy of the CBRT was to be selected and announced. Of course, it presents a general set of rules but as I try to show almost without significant changes to them, the way the government exercises its rights can change, quite easily.

3.3.4. Instruments

This section discusses two of the instruments employed by the CBRT and how they have changed. First, I discuss institutional communication in both content and method but with an emphasis on the latter. I argue that there has been a *displacement* in the method and the content of the communication CBRT prefers. Then, I discuss the (in)famous debates on the policy rates, claiming that there has been a *conversion* in the instrumentalization of policy rates by the CBRT.

3.3.4.1. Institutional Communication

Institutional communication is important for any organization that is in the public eye, perhaps even for those which are not. Yet, in the case of central banks, it becomes even more important since communication in central banking is not only about public relations but is about the situation of the whole economy. But what could central banks communicate? There is an extensive list: objectives, methods, forecasts, models, tactics, and decisions (Blinder, Goodhart, Hildebrand, Wyplosz, & Lipton, 2001).

Yet some scholars argue that the content must be taken more seriously than the medium of such information disclosure since the content of any press release or medium differs so widely (Eijffinger & Geraats, 2006). Therefore, Eijffinger and Geraats (2006) suggest that central bank transparency is more important than the way it communicates. Still, regardless of their comparative importance to content, the way central banks talk matters, quite a lot. For instance, a review of media coverage of these announcements reveals that more abrupt changes in the high-ranking bureaucracy exacerbated the currency crisis in Türkiye (Independent Türkçe, 2021; Dünya Gazetesi, 2021).

Monetary policy documents, especially the reports published by the Monetary Policy Committee, refer to the same causes of inflation. However, inflation has increased. Moreover, as the policies have changed, the public knowledge has not been updated accordingly. Thus, it seems the Bank does not try to communicate its rationales behind monetary policies as much as before.

As discussed in the previous chapter, the announcements and the appointments became irregular as well. Not only do they come as a surprise, meaning these decisions are not well communicated beforehand, but they are also announced in the *Official Gazette*, by Presidential Decrees. It turns out that the Bank decided not to comment on these appointments before they are made official, which is about both the independence of the Bank and its communication style. I argue that there has been a displacement in the communication style of the CBRT.

3.3.4.2. Policy Rate

The policy rate is one of the most controversial topics in Türkiye which is interesting from both an economic and an institutionalist perspective. In many economies, the policy rate is closely monitored by economists, investors, politicians, and many more. However, in Türkiye, the matter has become all too political. Newspapers take the issue to their headlines even days before the decision is announced; it is very much possible to overhear people casually talking about the interest rates; political parties in the opposition discuss the issue at length. The issue has been highly politicized. However,

I discuss the government’s unconventional view on the causality between inflation and interest rates in the previous chapter. Let me further elaborate. The president's beliefs about interest have their roots in *Milli Görüş* (English: National Vision) which he had been a part of in the 1990s, before leaving the affiliated party to establish his own. This skepticism about interest rates stems from both religion and politics.

Therefore policy rates, or one-week repo auction rates as sometimes called, have been the topic of constant debates. The discussions reached a peak when the Monetary Policy Committee decided to lower the rates by two hundred basis points, from 18% to 16% (TCMB, 2021-45). Not only was it a surprise to many, but it also marked the start of the implementation of what I can best describe as a “war on interest”.

Up until early 2021, the policy rates were kept under 10%. Yet with the economic troubles exacerbating, the Bank decided to increase the rates especially to maintain price stability. This was met with a harsh pushback from the government, starting the famous series of appointments in the Bank. The discussions on the policy rate would be so central next year that it will even lead to changes in the cabinet. What followed was beyond expectations.

After October 2021, to almost everyone’s surprise, the policy rates plummeted. It fell down to 14%. The government insisted that a high policy rate was the root cause of inflation so it should be lowered as much as possible. Yet, after it was lowered to 14%, it remained unchanged. The government’s expectations were not realized. Even with lower policy rates, the inflation problem persisted, if not went worse.

Then, to ameliorate the situation the government decided to adopt different objectives and instruments in fiscal policy to fight against rising inflation. A deposit insurance scheme was introduced in December 2021 to protect household savings against inflation which helped with the currency crisis to an extent but was of little use for inflation, if any. The government then turned on some other measures such as selling dollar reserves of the central bank. These also did not solve the problem.

The government, then, announced that they will be implementing new interest cuts but this has not happened yet, as of June 2022. This is also related to the previous instrument I discussed. Since the central bank is not interested in conveying its long-term plans to the public anymore, no one outside of the inner circle of policy-making would be able to know what the policy rates will be in the future, at least for now.

All of these show that the policy rate is much less important for the government than it used to be. There seems to have been a conversion of this instrument. Although it is less important for the government it is still used as an instrument but in the opposite way. Before, policy rates were increased to curtail inflation. After the change, it is now decreased to achieve the same. Aside from the question of which one is the empirically successful mode, it seems that the government had a change of heart and, consequently, a change of instrument.

CHAPTER 4

WHAT TO MAKE OF THE TURKISH CASE?

This thesis shows that two seemingly conflicting theories are actually neither mutually exclusive nor jointly exhaustive. These are not mutually exclusive because the Turkish case shows that two different types of change can clearly occur in the same country within a relatively short period of time and each of these changes could only be adequately explained with only one of the theories. However, as Chapter 3 illustrates there are still many gaps to be filled. For instance, neither of these theories could provide us with a mechanistic explanation or help us explain the “why” of institutional change. Therefore, even combining the two does not provide us with enough explanatory power. One end of the literature is partly right and partly wrong; and so is the other one.

I have also tried to point out the informal institution of *fiscal dominance* in Türkiye, a prominent feature of Türkiye and many other developing countries. I argue that most of the reforms in Türkiye are a result of a collaboration between the monetary policy and fiscal policy. Whenever there is a conflict, the government always tips the balance in favor of fiscal policy. A part of the explanation for the gradual change after the 2010s could be derived from this. In retrospect, it turns out that with only the open and explicit consent of the executive, could the Central Bank be independent. We now know this because of the counterfactual scenario that was actually realized. The same government that had let the Bank be independent had a change in mind, its ideas shifted. So did the independence of the Central Bank. It seems the only distinguishing factor was the willingness of the government to allow the Bank to be independent. After 2010, it appears that the government did not want it to be independent anymore. Statist policy style allowed for a substantial change of all dimensions, albeit a gradual one.

Moreover, I also tried to analyze the relationship between endogenous constraints and exogenous pressures during the critical juncture of 2001. I have tried to show that an emerging market economy, when combined with bureaucratic autonomy or at least a bureaucracy that is supported by the government for reform, has the capacity to combine these two factors in a harmonious way.

4.1. Summary of the Argument

Aside from the argument that the two sides of the literature are actually compatible, the bulk of the analysis is on principles, objectives, procedures, and instruments of gradual change that started after the 2010s. The analysis helps us understand how gradual institutional changes occur and how they could be measured. In that sense, I believe this study says something about the general conditions of change in emerging market economies. However, the most concrete and internally valid results come from the case study. Let me summarize my conclusions of the case study.

The first point is the pace of change. The 2001 reforms were taking place through a critical juncture. The pace was abrupt. On the other hand, the change that started in the 2010s was piecemeal. Its pace is incremental. Second, the former change was formal, whereas the latter was mixed. More often than not, informal changes were more frequent. The mode of change, however, is measurable only in the latter change. The greater part of Chapter 3 explains these kinds of changes. Let me briefly summarize these findings. Which dimensions of the CBRT changed through which mode of change?

The two sets of *principles* that were the policy legacies of 2001 were changed. First, Europeanisation, which had been one of the most important principles of not only CBRT but of most economic institutions in Türkiye was subjected to *layering*. It was not immediately replaced or displaced but another principle was put into effect on top of it, rendering it less effective, if not completely. In this case, it was the principle of nationalization and localization. Europeanization has not become obsolete, but it is now less consequential due to the government's emphasis on what is "local and national."

Then, second, the regime and the principle of inflation targeting were affected by *drift*. Inflation targeting still remains in the books, as the most important, overarching principle of CBRT. Official documents and press releases constantly refer to it, but in practice, as the inflation and the policy rates show, it is rarely realized. Instead, the discourse of the government has shifted to something that I can best describe as "growth targeting" for the sake of conceptual symmetry.

The changes in the *objectives* are relatively more straightforward. Two objectives, price stability, and central bank independence have gone through *conversion*. These are conversions in the sense that these objectives are nominally and formally in place but they are interpreted in novel ways that they started to serve different objectives which are current account balancing and central bank coordination. The objective of price stability is in place but hardly achieved. The rampant inflation problem, as of 2022, is the single most important evidence.

For the *procedures*, I examine only one: bureaucratic appointments and their announcement styles. I show that the appointments have become increasingly political but less publicized. Before the *displacement* of this procedure, CBRT was careful about conveying potential replacements within the bank to the public and the markets. After the displacement, however, appointments and announcements were exclusively done through the *Official Gazette* without due discussion or warnings. In addition, terms of office became shorter. This was a complete displacement. However, since this happened over a long period of time, I consider it a displacement, not through a critical juncture.

The instruments on the other hand were a little more difficult to operationalize. Since both of the instruments I discussed are intricately related to the objectives and the instrument I analyze, it was difficult to separate the data for them. At times, I used the same data for different dimensions. Interestingly enough, they yielded different results as well. Because the same policy (in)action, creates different effects for each dimension. For instruments, the policy rate is the most obvious change. I found out that there is a conversion. Policy rates are supposed to be used for price stability but they were also used for other objectives such as obtaining a current account balance. The institıutional communication, being similar to the procedure of appointments and announcements, is actually an object of displacement. The Bank decided to “talk” more briefly and formally. The Bank, prior to the displacement, was talking with the markets and the public in a much more engaging manner. Just a casual review of the number of speeches done by each governor in public and their style of communication with people out of the bureaucracy point to that. At any rate, I observed displacement and conversion.

Dimension of Change	After 2001 Reforms (Critical Juncture)	After 2010s (Gradual Change)	Mode of Change
Principles	Europeanisation	Nationalization and Localization	Layering
	Inflation Targeting	Growth Targeting	Drift
Objectives	Price Stability	Current Account Balance	Conversion
	Independent Central Bank	Coordinative Central Bank	Conversion
Procedures	Regular Appointments and Announcements	Irregular Appointments and Surprise Announcements	Displacement
Instruments	Engaging Institutional Communication	Declarative Institutional Communication	Displacement
	Higher Policy Rates	Lower Policy Rates	Conversion

Table 1: Summarized findings for the analysis of principles, objectives, procedures, and instruments.

The analysis also shows how varied gradual institutional changes can turn out to be. Out of the seven distinct changes, I distinguished all four modes of changes that the literature claims to exist.

4.2. Comparative Insights

First, whether Türkiye is considered an emerging market economy, a developing country, or a middle power, one thing is certain: Türkiye is not a *unique* case. It may be a *variant* case, in the sense that its current outlying situation (the high inflation rates and an unconventional macroeconomic theory that governs it) puts it in a unique situation to be able to go through two different paces of change within only two decades. Yet, as I try to show, none of these changes are explained, at least on a macro level, by anything exceptional to Türkiye. Fiscal dominance, for instance, is not a problem specific to Türkiye. Almost all developing nations suffer one form of fiscal dominance or another, to a certain extent. It is an ever-present condition of economic development.

So are the hidden faces of institutional change (drift and conversion). Different modes of change are observable in almost any developing country, as well as advanced industrial societies. Therefore, there is no reason why the same trajectory Türkiye has followed would not be followed by another country as well. That is the first and foremost comparative insight that I have gained from this thesis. Instead of doing Turkish exceptionalism, which is a prevalent condition in Turkish studies, as is the case with almost any single country studies, I have tried to explore a pattern. The pattern suggests that whenever a government with enough space for political maneuvering decides to change its well-established policies, it tries to do so through more gradual, informal ways.

A second comparative insight suggests change does not require certain conditions to be present, as we have formerly believed. Rather, change is ubiquitous and constant, yet the type of change that occurs takes shape according to the conditions from which it emerges. However, sometimes the extent of a change may not be explicit enough for us to observe. Oftentimes, we assume that no change occurred whereas we only see it after a long time, only with the benefit of hindsight. This is partly due to hard to unpack, philosophical problems. The Hegelian notion that history, and especially change, is a retrospective matter reminds us that so much still stands between us and the truth on current matters.

However, there is also the methodological issue at hand, perhaps easier to solve. As we finetune our methods and instruments, we may hope for better conceptualizations and operationalizations that will provide us with more internal, and also if possible external, validity when measuring change. This study tries to measure a change that is still in place. It makes the measurement process even more difficult, as I have tried to explain in the Introduction.

To use the analogy again, no one from the crew of Theseus is able to notice, let alone measure, the change the ship goes through. However, what if we were to compare the snapshots of the same ship at two different moments? Or what happens when we try to examine different parts of the ship individually, then in comparison? I aimed to do exactly that in this thesis. First, by comparing the two different changes I wanted to answer the second question. Then, by examining the four dimensions of a single changing policy structure, I tried to answer the second question.

As to the external validity of these conclusions, I see Türkiye is not a unique case but an extreme one. I argue that the results from this study are not *immediately* applicable to any other country. Yet, since Türkiye falls under many different categories, many studies with a most similar or most different systems design could be made. It is in this sense that findings from the Turkish case may offer comparative insights and a good place to start.

4.3. Notes for Future Studies and Delimitations

The classic trade-off of single-case studies between external and internal validity is the most obvious delimitation of this study. Like many other single-country studies this one also has a good internal validity at the cost of external validity. The reason for this is almost intuitional. Studying a single case, by definition, yields fewer data to generalize results. The problem of small-N studies is clearly their capacity to create generalizable results (Hancke, 2009). This becomes so much more exacerbated when the N is as small as one. However, as the analysis shows, a single country study presents us with a much more intense explanation of what happened and how. Combined with the macro causal analysis, a single country study is always suitable for being used in comparative studies. The literature on gradual institutional change is new and remains highly understudied. I believe monetary policy and theories of gradual institutional change are analytically compatible. I hope some comparative studies involving theories of gradual institutional change and monetary policy could be made so that we can have more studies with higher external validity.

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