Policy Entrepreneurship and Institutional Change: Multilevel Governance of Central Banking Reform

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Recent studies on institutional theory and the public policy field called for efforts to pry open the black box of institutional and policy change. This article offers a response to this call. It demonstrates that historical and discursive institutionalist approaches are complementary to explain how and why institutional change occurs. In addition, it shows how these approaches can add value to and benefit from the public policy and administration fields that seek to explain policy change and success. In particular, it emphasizes the interactions between structure and agency that contribute to the change. The empirical finding is based on qualitative analysis of central banking reform in Turkey. It suggests that institutional and policy change is more likely to occur when policy entrepreneurs, with joint membership in domestic and transnational policy communities, mediate various ideas and discourse within and among these communities in a punctuated institutional equilibrium.

Introduction

Central banking legal reforms are important institutional dimensions associated with economic globalization. During the 1990s, there was a significant worldwide trend toward increased central bank independence, transparency, and accountability through legal reforms and disclosure practices. Previous studies on central bank legal reform focused on the role of domestic explanatory factors such as interest group lobbying; electoral, partisan, and coalitional politics; and the role of international explanatory factors such as international financial markets and “ideational entrepreneurs.” The Turkish experience in the 1990s presents an anomaly for some of the existing hypotheses offered in these studies. Although the Central Bank of Turkey (CBT) drafted a law that reflected the ideas (e.g., programs, paradigms, and policies) of the epistemic community of central bank governors at the time when Turkey was under the International Monetary Fund (IMF) stand-by agreement as well as the European Union (EU) accession process obligation, both of which required this legal reform, coalition governments and political parties did not have the legal reform on their agendas. Furthermore, all through the 1990s and the year

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2000, the banking sector and international financial capital were not pressuring successive governments for central bank independence (CBI). However, on April 25, 2001, a weak coalition government gave the CBT legal independence, which marked one of the most radical micro-institutional reforms in the Turkish economy. Following the reform, the CBT ranked fourth in terms of independence and third in terms of transparency and accountability compared to nine central banks of the developed economies (Bakir 2007). Why was it that the coercive power of the IMF and the EU—based on conditionally linking policy reform to economic resources (e.g., from the IMF) and to political membership (e.g., in the EU)—did not work as causal mechanisms of international diffusion of the CBI idea before 2001? Why was it that international financial markets and the banking sector did not press for the CBI before 2001?

The Turkish experience holds important implications for the literature on ideas and institutional/policy change and the literature on the diffusion of ideas (e.g., CBI) across national borders. The major weakness of the previous studies is that they do not explain how international and domestic explanatory factors interact toward institutional change, how and why “ideational entrepreneurs” effectively penetrate into domestic policy processes, how the bridge between domestic and international policy paradigms is formed, how conflicting policy preferences are resolved in policymaking processes, and why institutional/policy change takes place. This article aims to fill this void in the literature with special reference to the Turkish experience. It examines a radical policy reform, namely, the decision by the Turkish government to legislate independence of the CBT.

The central bank legal reform also represents a micro-institutional change in monetary governance. Thus, this article aims to contribute to “the state of the art” in current historical and discursive institutional debate by examining interactions between structure and agency. It deploys an analysis of ideas, discourse, and interests to help account for when institutional equilibrium (i.e., long periods of stability) is punctuated by a crisis that eventually gives way to fundamental policy and institutional changes through policy and institutional entrepreneurship. Here, “policy and institutional entrepreneur” refers to an individual who mobilizes ideas, resolves conflicts, and steers their implementation for policy and institutional changes. In this context, following Campbell (2004, 2007) and Schmidt (2008a, 2008b), this article specifically deals with how much institutional change occurs, what the underlying mechanisms or processes by which this change occurs are, and how ideas and discourse as well as vested interests affect institutional change and the degree to which they do this.

The article argues that ideas are more likely to cause policy and institutional changes when policy entrepreneurs mediate various ideas and discourse within and between domestic and transnational policy communities in a punctuated institutional equilibrium (e.g., crisis environment).
In particular, policy entrepreneurship applied here provides deep insights into debates on the institutional literature on how, when, where, and why normative and cognitive ideas (i.e., what was said) and discourses, “interactive processes by which ideas are conveyed” (i.e., who said what to whom, where, when, how, and why), explain institutional change (Schmidt 2008a, 305). This article seeks to demonstrate that historical and discursive institutionalist approaches are complementary to explain why institutional change occurs, and how they can add value to and benefit from the public policy and administration fields that seek to explain policy change and success. In order to do so, it stresses interactions between structure (i.e., institutional context) and agency (i.e., individuals rather than organizations) as well as ideas and discourse in policymaking processes that lead to institutional and policy changes.

The adoption of John Kingdon’s concept of “policy entrepreneurship” (Kingdon 1995) is useful in incorporating agency, ideas, and discourse to illustrate the mechanisms involved in multilevel (i.e., systemic, national, and micro-organizational level) analysis of an institutional change in a punctuated equilibrium pattern at the various stages of a policymaking process. Thus, the theoretical underpinnings of the discussion stem from Kingdon’s pioneering work on governmental agenda setting, involving a framework of interpretation based on three policy streams within the process: problems, policies, and politics. Policy change happens on occasions when these independent policy streams can be coupled (Kingdon 1995, 16–18, 172–179). This coupling happens when policy entrepreneurs, individuals who invest their effort to implement policy ideas they favor, seize a short-run opportunity (a “policy window”) to push for the solution or to focus attention on a certain problem (Kingdon 1995, 179–184).

Yet this article differs from the conventional applications of Kingdon’s (1995) framework where policy entrepreneurship is limited to governmental agenda setting (Bakir 2003; Howlett 1998; Mintrom 1997; Zahariadis and Allen 1995). It adapts the framework to historical and discursive institutional analyses. It does so by endogenizing the agency (i.e., policy entrepreneur) that carries ideas and utilizes discourse in various stages of public policymaking toward institutional change. Further, this research for the first time extends the framework’s logic to a developing country. Specifically, there are three major weaknesses of the framework that require adjustments to the institutional analyses. The first weakness is that it is “ahistorical” (Weir 1992, 191–192). For example, it does not focus on how previous policies affect current debates and institutional innovation, or institutional contexts that shape how, why, and where policy reforms take place (Schmidt 2008b, 20). This article offers a historical perspective, showing that institutional arrangements leading to inflation affected policy debate and, ultimately, CBI choice.

The second major weakness is that policy entrepreneurs operate at the national level. This article shows when, why, how, and with what effect policy entrepreneurs operate at systemic, national, and micro-
organizational levels in internationalized policy domains. Specifically, Kingdon’s (1995) concept of “policy entrepreneur” is a useful avenue for improving our understanding of the relationships between domestic and transnational epistemic policy communities, and how and with what effect ideas sponsored by “ideational entrepreneurs” penetrate into domestic policy processes. In a similar vein, as Coleman and Perl (1999) note, policy community mediation in internationalized policy environment can take place at two levels. First, a mediator may operate as a pragmatic policy broker who looks for opportunities to lessen conflict within and between communities in order to move the policy process forward. . . Second, perhaps even more important, mediation takes place on an intellectual plane, involving the “translating” of policy ideas and paradigms between policy communities. (707–708)

As such, this article adapts policy entrepreneurship and mediation concepts to intergovernmental relations in internationalized policymaking, that is, central banking reform. In doing so, it deals with novel limitations of the notion of policy entrepreneurship/mediation by focusing on the relationships between domestic and transnational epistemic policy communities in a historical perspective. The article also addresses questions such as why and how certain individuals are able to play the role of policy entrepreneur/mediator and wield power to resolve conflicts within and among policy communities and implement policy ideas that they embraced in multilevel governance process. Such an analysis emphasizing the role of policy entrepreneurship and mediation contributes to a vast literature on noncompliance with IMF programs due to difficulties in monitoring the implementation of the recipients and their lack of institutional capacity to effect institutional and policy changes (see Eichengreen and Ruehl 2000). Policy entrepreneurs may effectively combine some or all of the four causal mechanisms of international diffusion of economic liberalism: coercion, competition, learning, and emulation (for a review of these mechanisms in isolation, see Simmons, Dobbin, and Garrett 2008).

The third major weakness is that the actions of policy entrepreneurs may not be limited articulating policy innovations (i.e., adoption of new policies by states for the first time) onto government agendas. They may play multiple roles in the various stages of domestic policymaking process, such as facilitating legislative adoption and executive/bureaucratic implementation of policy ideas. A policy entrepreneur, who mobilizes ideas and utilizes discourse toward policy and institutional changes, may simultaneously perform various roles, such as decision maker, academic, framer, and mediator that enable him to operate in different ideational realms such as programs, paradigms, and discourse (for various actors and their ideational realms, see Campbell 2004, ch. 4).

A combination of interviews and written sources was the main approach to collecting data for this research. The interviews were held with five former central bank governors/deputy governors and a former undersecretary of the Treasury who had thorough knowledge of the
reform process. Daily newspapers as media sources were also widely used. Other textual sources included reports and press releases of the government bodies and private agencies. The data are ordered chronologically and linked to the theoretical framework.

The article is organized as follows. Section two offers a literature review that has two interrelated parts. The first part focuses on the literature on central bank legal reforms. Yet, such reforms also mark an evolutionary or radical institutional change in monetary governance. Thus, the second part of the literature review positions the article in the institutional literature. Section three offers a brief discussion of the political and economic background to provide the context for the debates on CBI in the 1990s. In doing so, it tests existing competing explanations in the literature. Section four outlines the main argument that policy innovation and institutional change is more likely to take place when policy entrepreneurs, mediating various ideas and utilizing discourse within and between domestic and transnational policy communities, operate successfully in a punctuated equilibrium. Section five summarizes the main argument.

**Literature Review**

Introduction of legal reforms granting independence to central banks has been a universal temptation for the majority of sovereign states. Especially from 1990 onward, CBI has become a legal standard, and there has been an international trend toward legal independence (Marcussen 2005). The governments in both developed and developing countries deliberately reformed the statues of central banks to grant them more autonomy to achieve and sustain their primary objective: price stability. A normative support for CBI revolves around the assumption that central bank governors, who place a greater weight on price stability, are more averse to inflation than politicians (Goodman 1992; Nordhaus 1975; Woolley 1984). As such, on the theoretical level, it is argued that CBI may provide an institutional solution to the political cycles in the money supply (Barro and Gordon 1983; Kydland and Prescott 1977). Although the empirical evidence is mixed, a number of studies suggesting a negative relationship between CBI and inflation rate gained wide acceptance (Berger, de Haan, and Eijffinger 2001).

The literature on the political economy of central banking reforms emphasizes governments’ responses to national and international pressures. The main approaches focusing on national pressures can be grouped into three categories. These are private interest-based, political interest-based and culture-based explanations of CBI. Interest-based explanations of central bank legal reforms focus on the role of societal actors such as finance capital and mortgage holders, who benefit from low inflation in promoting CBI (Maxfield 1991; Posen 1995). Political interest-based explanations can be grouped into electoral, partisan, and coalitional politics views of central banking reform. In the electoral politics view, it is
hypothesized that a politician aims to win successive elections by generating short-term gains in output and stimulating an economic expansion to reduce unemployment at the expense of price rises (Nordhaus 1975). These policy preferences make politicians, as the argument goes, less willing to supply independence to central banks. The partisan literature emphasizes inflation-averse policy preferences of political parties on the Right, which have political incentives for reforming central banks (Bernhard 2002; Goodman 1992; Maxfield 1997). The coalitional politics view assumes that coalition governments grant independence to central banks to increase cabinet stability by removing intraparty conflicts over monetary policy (Bernhard 2002). Finally, there are culture-based accounts which emphasize the interconnectedness between CBI and an anti-inflation culture resulting from bitter historical experience of hyperinflation (Hayo 1997).

The main approaches focusing on the role of extraterritorial sources of influence on CBI emphasize the significance of ideas and "ideational entrepreneurs," and legal and economic pressures (Haas 1992; Helleiner 1994; King 2005; Marcussen 2005). The interrelated role of the neoliberal economic ideas, and organizations and individuals carrying these ideas, is widely used for explaining these reforms in the 1990s. Here, ideational entrepreneurs refer to multilateral (e.g., IMF) and supranational (e.g., EU) organizations, individuals (e.g., central bankers), and their transnational epistemic communities. It is widely assumed that CBI legal reform is a function of this ideational entrepreneurship, which “helped the central bank fad on its way worldwide through transnational communication” (Marcussen 2005, 916).

With regard to the diffusion of the legal independence standard in the 1990s, it becomes important to systematically study the role of political pressure from international financial institutions . . . , individual central bankers . . . as well as forums for transnational communication, learning and deliberation . . . These [ideational] entrepreneurs and the ways in which they applied deliberative as well as indirect coercive learning techniques have actively helped the independence standard on its way in its worldwide journey. (Marcussen 2005, 919–920)

This view on interdependent decision making relates to international policy diffusion literature, which identifies competition, coercion, learning, and emulation as four distinct causal mechanisms that explain the timing and geographic reach of liberal policy innovations (see Simmons, Dobbin, and Garrett 2008). For example, it is assumed that states that are in cultural, political, and economic competition with each other supply independence to central banks to maintain their status and secure legitimacy in a world of economic globalization (Polillo and Guillén 2005). It is argued that the greater a country’s exposure to foreign trade, investment, and multilateral lending, the more independent its central bank. Some draw attention to such EU members as Great Britain, France, and Sweden, which reformed their central banks due not to economic and legal pressures but to ideational pressures put forward by an
epistemic community of central bankers, or “policy entrepreneurs” (King 2005, 98).

The role of extraterritorial legal and economic coercion is also emphasized in the central banking reforms among developed countries. For example, there are studies emphasizing the role of the EU membership process and legal requirements toward the European Monetary Union (EMU) convergence criteria in promoting CBI in the EU (Marcussen 2005). A decision to join the euro zone and the EU membership prospect explain most cases of central banking legal reforms under the European regionalism (Dyson 1994; Elgie 1998).

In a similar vein, it is argued that the spread of the CBI idea reflects diffusion processes mainly based on coercion (McNamara 2002; Stiglitz 1998; Watson 2002) and competition (Maxfield 1997; Polillo and Guillén 2005). The former focuses on external coercion via the conditionality of the IMF and World Bank, which carry these ideas. The latter focuses on developing countries’ desire to attract capital inflows via signaling their inflation-averse creditworthiness to foreign creditors and maintain international competitive status and legitimacy. There have been references to financial crisis-induced opportunity space. For example, the Asian financial crisis in 1997 opened a “window of opportunity” for the multilateral organizations to transform the protectionist and interventionist economic systems of Korea, Thailand, and Indonesia toward both a free market and a regulatory state. This was in line with such Washington Consensus (WC) reforms as economic liberalization (Bello 1998; Jayasuriya and Rosser 2001; Vreeland 2007; for the Latin American experience, Teichman 2001) as well as the Post-Washington Consensus (PWC) in terms of the establishment of legally independent bureaucratic agencies such as independent central banks and financial supervision/regulation authorities.

Although the ideational entrepreneurs and legal and economic pressures were present in the 1990s, the successive Turkish governments did not grant legal independence to the central bank. The previous works, as noted above, do not focus on how and why neoliberal policy paradigms penetrate into domestic policymaking processes, with what effect, and why ideational entrepreneurs have been unsuccessful in one historical period but successful in another. More specifically, there are two main weaknesses in theoretical debates based on the role of ideas and ideational entrepreneurs in central banking reform. First, discursive institutionalism is underutilized (for a detailed discussion on discursive institutionalism, see Schmidt 2008a, 2008b). Specifically, the current scholarship primarily focuses on the substantive content (i.e., cognitive and normative aspect) of the CBI idea rather than its discourse, which refers to both agency (who said what to whom) and structure (what is said, where, and through which channel). Second, a pattern of “policy entrepreneurship” that mediates various ideas and discourse within and between national and transnational epistemic policy communities involved in various stages of the multilevel governance process is lacking. The radical
central banking legal reform in Turkey is a crucial case study not only to test the existing competing explanations but also to offer an explanation on when, how, and why ideas matter, and how international explanatory factors interact with domestic explanatory factors in the governance of the reform process.

The influence of policy ideas and policy entrepreneurs depends heavily on the economic and political circumstances of the time, which are conditioned by the institutional framework within which they operate. The institutional context of policymaking can contribute to the explanation of policy change as well as continuity (Hall 1989). There are four major variants of institutional analysis: rational choice and organizational, historical, and discursive institutionalism (Campbell 2004; Campbell and Pedersen 2001). Rational choice institutionalists have paid much attention to how institutional change occurs through the path-dependent mechanisms of feedback, increasing returns, and choice within constraints, ignoring the normative and cognitive ideas involved in path-dependent institutional change (Brinton and Nee 1998). Further, their analysis typically follows an incremental and evolutionary pattern rather than a punctuated equilibrium pattern where a long period of institutional stability is punctuated by periodical crises (for an elegant historical institutionalist critique, see Campbell 2004, ch. 1). Discursive institutionalist critiques of rational choice institutionalism argue that “the rational choice cannot go very far in theoretical terms because preferences are not fixed, are ‘subjective’ rather than ‘objective’ and institutions are not stable enough to theorize as incentives. . . . Rather material reality is the setting within which actors conceive of their interests, and to which actors respond with ideas and discourse about their interests” (Schmidt 2008b, 7, 18).

In contrast to rational choice institutionalism, organizational institutionalism (DiMaggio and Powell 1983; March and Olsen 1989, ch. 1; Powell and DiMaggio 1991) and discursive institutionalism (Schmidt 2008a,b) have focused more on the role of normative and cognitive ideas than of material self interests, which generate environmental pressures toward organizational change as well as a punctuated equilibrium or punctuated evolution patterns of change. Organizational institutionalists note that organizations (e.g., states and central banks) adopt common institutionalized practices as a result of mimetic processes (i.e., organizations facing uncertainty copy the practices of other successful organizations), normative processes (i.e., organizational leaders adopt similar views on what constitutes appropriate organizational practice), and coercive processes (i.e., organizations adapt to pressure from other organizations around them to conform to institutionalized standards). International policy diffusion literature, noted above, benefits from organizational institutionalism. Yet, as Campbell notes, “the underlying mechanisms of transfer [of practices] are underspecified, and again there is little room for an account of actors and agency” (2004, xxii). The major difference between organizational and discursive institutionalism is that the latter focuses
both on normative and cognitive content of ideas and on “the discursive interactions through which actors generate and communicate ideas” (Schmidt 2008a, 306).

Historical institutionalism “can be located somewhere between rational choice[,] organizational, [and discursive] institutionalis[m] . . . that seek to offer a more balanced treatment in their work of the interplay between ideas, [discourse] and logic of appropriateness, on the one hand, and interests and a logic of instrumentality, on the other hand” (Campbell 2004, xxvii; Streeck and Thelen 2005).

Following Campbell (2004, 2007), the “state of the art” in current rational choice, organizational, and historical institutionalism literature has “been struggling with three problems for years: the first is how to measure institutional change and how to determine the degree to which change has occurred . . . The second problem is specifying the mechanisms by which change occurs . . . The third problem is how to incorporate an ideational perspective into our understanding of institutional change” (2007, 557). However, as Schmidt (2008a, 2008b) argues, discursive institutionalism can lend a hand to these older “new institutionalists” in addressing these problems. In particular, discursive and historical institutionalist approaches complement one another to explain why change occurs: “Discursive institutionalism endogenizes change, explaining much of how and why public actors bring about institutional change, thereby re-injecting agency into historical institutionalism” (Schmidt 2008b, 20). In particular, the value of discursive institutionalism is that it helps to explain the “unexpected” for historical institutionalism:

Whereas historical institutionalism may provide background information for what one normally expects, given the structural constraints, it does not explain what one often gets—the unexpected. Importantly, discursive institutionalism can explain the unexpected not just because it can account for unique events by reference to individuals’ ideas and discourse but also because the unexpected may actually be expectable when analysis is based on a particular set of ideational rules and discursive regularities in a given meaning context following a particular logic of communication—rather than being based on historical regularities following a logic of path dependence. (Schmidt 2008b, 20, emphases added; see also Schmidt 2008a, 314)

Indeed, the Turkish case helps to explain what was expected in the 1990s and the year 2000 (i.e., CBI reform that did not take place because the institutional structure in the financial services industry was advancing powerful ideas, and economic, bureaucratic, and political interests) and the unexpected (i.e., legal independence given to CBT due mainly to ideas and discourse invoked by a policy entrepreneur in response to the 2001 crisis). Such an analysis also relates to the recently emerging theory of crisis exploitation, which emphasizes the impacts of crisis on key political office holders, and policies and institutions with special reference to “frame contests” between the various actors that seek to exploit this crisis-induced opportunity (Boin, ’t Hart, and McConnell 2009).
Furthermore, some of the leading scholars in the public policy and administration fields argued that both institutional and public policy fields need one another to explain institutional and policy change, as well as success. For example, Peters, Pierre, and King (2005, 1277) note that “without some dynamic conception of agency, and including a greater role for political conflict, the approach [historical institutionalism] cannot provide an adequate explanation for change.” These scholars recently realized that “institutional theory has not been a very widely employed analytical perspective” in different subfields of political science and “institutional analysis has much to offer . . . in terms of understanding [policy-making and policy change] process” (Pierre, Peters, and Stoker 2008, 233). In particular, it is argued that “it is not clear to many policy scholars what the added value of institutionalism is in their field of study . . . institutional perspectives which stress interaction between structure and agency, remain largely absent” (Boin and Kuipers 2008, 42–43, 47).

This article makes an important contribution to these debates by its conceptualization of policy entrepreneurs as agents mobilizing various ideas and discourse for policy and institutional changes, resolving conflicts within and among policy communities, and steering the implementation of policy ideas that they embraced in multilevel governance process. This insight is fundamental for giving the historical institutionalism more explanatory power as well as helping policy scholars in their efforts to pry open the black box of policy change.

Material, Ideational, and Institutional Barriers to CBI in the 1990s

It is widely held that the banking sector, international financial capital, and political parties on the Right with their inflation-averse policy preferences represent natural constituencies lobbying for the increased CBI. The Turkish experience in the 1990s shows otherwise. In contrast to the assumption that the banking sector is the key interest group lobbying governments for the orthodox economic policies and CBI (Mas 1995; McNamara 2002; Posen 1995; Watson 2002), the Turkish banking sector had vested interests in unorthodox policies generating high inflation and budget deficits and having dependent CBT. The answer to this puzzle lies in the domestic institutions organizing financial relationships between state and capital in the Turkish financial markets. Turkey adopted neoliberal economic policies such as financial and economic deregulation, including convertibility and capital account liberalization, in the absence of internal and external macroeconomic balances in the late 1980s. This was followed by the Turkish government’s adoption of a “hot money” policy of high real interest rates for treasury bills and domestic currency appreciation to attract short-term, unproductive, and speculative financial capital to compensate for the increasing growth in government expenditures. High real interest rates and financial arbitrage encouraged banks to focus on government deficit funding via largely open foreign exchange positions.
(i.e., foreign bank loans), which generated lucrative profits in spite of high consumer inflation. For example, although the annual inflation rate (i.e., consumer price index) averaged 77.8% a year in the 1990s, the annual real interest rate for government securities averaged 32% between 1992 and 1999 (Treasury 2001, 1). Not surprisingly, both public and private banks channeled most of their funds to the government debt market rather than to corporate lending; the share of total bank loans in total bank assets decreased from 36% to 24%, while government securities in total bank assets increased from 10% to 23% between 1990 and 1999, respectively (Treasury 2001, 6). The government via the Treasury was the major borrower, while foreign and domestic banks were the major lenders.

Understanding the perverse financial incentive structure is also useful in addressing why the Turkish case contradicts the explanations emphasizing the role of international financial capital pressuring politicians toward the institutional reform. Indeed, foreign banks greatly benefited from financing government spending via lending to domestic banks, and this would have continued so long as the high real interest rates for government securities, coupled with appreciation of the Turkish lira (TRL) (i.e., financial arbitrage), was maintained. For example, financial arbitrage averaged 22.8% in the three years between 1998 and 2000 (Boratav 2007, 197). In this environment, the short-term financial capital inflows put pressure on exchange rates leading to current account deficits and subsequent currency crises in Turkey. Accordingly, one might have expected that international financial capital would have been negatively affected by such adverse currency movements, since a devaluation of TRL would be expected to erode profit margins derived via high real interest rates and financial arbitrage. However, major international financial investors did not suffer from currency instability. First, they had privileged access to the CBT’s foreign exchange reserves immediately before financial crises in Turkey. Second, foreign banks that provided loans to the Turkish banks were not confronted with the business risks when these domestic banks became insolvent. This was due to comprehensive Treasury guarantees that were part and parcel of the IMF conditionality (IMF 2000).

Not surprisingly, in this perverse incentive structure, the “bankers’ alliance” between foreign and domestic bankers and the CBT toward more orthodox policies and CBI was not formed (for Brazilian and Mexican experiences on “bankers’ alliance,” see Maxfield 1991). Low inflation and CBI were not on the agenda of the private bankers who had lucrative financial gains despite the high inflation. The bankers’ primary concern was on the maintenance of a high interest margin between the nominal interest rate and inflation rate. Thus, there was no natural domestic constituency lobbying politicians on the CBT independence. In contrast to the general perception, the financial capital had a strong interest in the status quo, which helped to prevent any move to CBI.

Moreover, one should have expected that the perverse financial incentive structure might have attracted the hostility of the industrial capital,
namely, the manufacturing sector, which would have found it hard and costly to finance its investments, while its real income would have been eroded by unexpected high inflation. The Turkish reality does not align with these expectations either. Although the largest 500 manufacturing firms directed a considerable portion of their gross profits toward the banking sector in the form of interest expenditures, the high real interest rates were paradoxically the major source of net corporate profits. For example, the ratio of financial revenues to net profits before tax among these firms increased from about 33% in 1990 to 219% in 1999 (Yeldan 2001, 156). These firms adapted to the high real interest environment by switching some of their working capital to liquid government debt instruments (Boratav 2007, 200–201). Thus, they did not pressure the governments toward CBI.

Similarly, one should have also expected that the workers employed in the manufacturing sector would have faced a low probability of employment, as well as an erosion of their real income due to inflation. Thus, they would be hostile to the expansionary fiscal and monetary policies of the governments. Conversely, the governments’ institutionalized fiscal and monetary policy regimes in the perverse financial incentive structure did not generate the hostility of the labor. There were two main reasons. First, there were powerful ideas at work in the 1990s. These included strong cognitive and normative ideas that were in line with the expectations of the Philips curve: There would be a trade-off between inflation and unemployment (i.e., a high rate of inflation would lead to lower unemployment). As such, the cognitive idea was that inflationary monetary expansion could stimulate economic growth and employment, while the normative idea held that the CBT should be under government control. The Turkish experience in the 1990s supported these normative and cognitive ideas. For example, the unemployment rate declined from 8% in 1990 to 6.5% in 2000, while the economic growth rate averaged about 4% during this period (State Planning Organization [SPO] 2004, 157). In other words, for labor, the high inflation environment meant probability of employment. Second, the real income that labor received during the 1990s increased due to the various governments’ populist wage policies: Between 1988 and 2000, the wages-to-gross national product (GNP) ratio increased from 15.4% to its highest proportion of 22.3% (figures are from Boratav 2007, 197). During the same period (1988 base year), real wages per hour in manufacturing increased by 184%. In other words, the real income that labor received increased despite high inflation. As such, there were strong ideas, societal interests and institutions that were aligned against the CBI idea as well as balanced budget and tight monetary policy.

Accordingly, the Turkish experience with monetary and fiscal policy regimes in the 1990s has been an outlier for some of the rational choice assumptions put forward by interest group literature in regards to the preferences of liquid and sector-specific asset holders (Bearce 2003; Frieden 1991). For example, in a world of global finance, why do bankers,
international investors, and export-oriented producers in one country prefer monetary convergence (i.e., alignment of national and the prevailing world interest rates), exchange rate stability, and an independent central bank, while in another country they prefer monetary divergence (i.e., divergence of national and world interest rates for domestic reasons) and a dependent central bank? The main weakness of interest group theories based on the rational choice perspective lie in their ahistorical approach (Steinmo, Thelen, and Longstreth 1992). This is because such approaches focused on the characteristics and preferences of the societal actors themselves rather than the institutional and ideational environment where actions and preferences of these groups/classes are shaped.

Moreover, the Turkish case does not support the hypotheses put forward by the partisan (Alesina and Rosenthal 1994; Garrett 1998) and coalitional politics views (Bernhard 2002) of CBI. Although there had been 11 different coalition governments formed between 1990 and 2000, CBI was not regarded as an institutional mechanism for cabinet stability by these governments. Further, none of the coalition parties, whether on the Right or the Left, had central banking legal reform in their agendas. It is also puzzling that the legal reform that prioritized price stability as a single objective in 2001 was introduced by a coalition government led by the Democratic Left Party with labor roots, who stood to benefit most from job creation rather than price stability.

The Turkish case was an outlier because coalition partners from the Right and the Left had adopted the “hot money” policy for short-term gains in stimulating an economic expansion at the expense of inflation. Thus, the governments were not interested in supplying independence to the CBT (Bakir 2007, 43–52). For Turkish politicians, the key issue in attracting capital inflows was the maintenance of the hot money policy rather than granting legal independence to the CBT. This policy has been serving their short-term interests, as economic growth rate is closely correlated with foreign capital inflows (for this correlation, see Boratav 2007, 192–193). However, the high real interest rate worsened the public sector borrowing requirement, which increased from 4.8% of GNP in 1988 to 15.5% in 1999 (Boratav 2007, 187). The share of public sector net debt stock in GNP rose from 29% to 61%, while the ratio of net domestic debt to GNP increased from 6% to 42% between 1990 and 1999 (Treasury 2001, 1). The result was a rapid increase in the share of interest expenditures in the budget; out of every TRL 100 of tax revenue, TRL 31 were spent on interest payments in 1990, whereas the same figure reached TRL 72 in 1999 (Treasury 2001, 4). In this fiscal environment, the government and the fiscal bureaucracy had vested interests to have access to the CBT’s short-term loans and overdraft facilities on demand in order to finance budget deficits and monetize the debt. Not surprisingly, these powerful actors considered the CBT “a branch of the Treasury and Finance Ministry . . . whilst Central Bank governors were treated as civil servants of the government” (Central Bank deputy governor interview, July 12, 2006, Istanbul).
Nevertheless, the mid-1980s and the 1990s also witnessed domestic and international developments contributing to the CBT’s drive toward independence. The CBT’s resources had market, organizational, and ideational bases. In regards to market-driven resource factors, the opening of money and foreign exchange markets under the auspices of the CBT, deepening of financial markets, and introducing new financial products made the monetary governance an increasingly technical issue (Bakir 2007, 57–59). These new developments were in sharp contrast to the pre-deregulatory period. However, with new financial products and deregulated financial markets in a world of global finance, central banking became a highly technical issue. In the words of a former Central Bank governor, “The Treasury did not have knowledge authority” in this newly emerging financial market structure, while the CBT “gained technical knowledge and experience in financial markets, which was the start of the independence” (Central Bank governor 1 interview, March 22, 2006, Istanbul). The CBT started gradually monopolizing the monetary policymaking and broke the monopoly of macroeconomic knowledge held by the Treasury and the SPO.

The second half of 1990s also corresponded to in-house expertise building, which had organizational and ideational dimensions shaping resources, preferences, and strategies of the CBT toward CBI (for the micro-institutional level of CBI analysis, see Quaglia 2005a, 2005b). On the organizational side, human capital constituted one of the major resources of the CBT. In the words of a former CBT governor, “Independence can be achieved via knowledge. . . . [H]uman capital is of utmost importance to the production of technical knowledge. . . . That is what we aimed at via [in-house expertise]” (Central Bank governor 2 interview, March 20, 2006, Istanbul). Graduate economics education in American universities, with orthodox tradition and professional experiences in the international organizations, had been the beginning of the social processes that enabled knowledge production and policy preferences in the CBT in line with the orthodox economic policies (interviews). Further, the CBT introduced personnel reforms aimed at the retirement of lesser-qualified personnel while attracting the best among the economics graduates and advancing professional training and academic education of its officials. This included graduate programs in the United States and exchange programs for the CBT personnel at the IMF and the Organisation for Economic Co-operation and Development (OECD) (Bakir 2007, 59–63). The CBT also aimed to inform the public about the adverse consequences of high inflation for economic stability and welfare through the governor’s public speeches, conferences, and media. This move aimed to “influence public understanding of the inflation problem and the CBT’s role in dealing with it” (Central Bank governor 2 interview, March 20, 2006, Istanbul).

Between 1996 and 2000, the CBT drafted a new central bank law that included four radical provisions toward independence: (1) price stability is stated as a primary objective, (2) short-term interest rates are to be determined by the bank independently of the government, (3) the bank is
not to lend to the public sector under any conditions, and (4) the government cannot give orders to the bank under any condition. This draft reflected the normative and the cognitive contents of CBI idea in the Turkish context. Mimetic (i.e., copying central banking practices of advanced nations) and normative (i.e., governor’s adoption of normative view on what CBT should do) processes were all at work under the auspices of the Bank for International Settlements (BIS). Interactions between CBT governors and central bank governors of other nations disseminated policy ideas and practices about CBI. As a former CBT governor noted:

[In the second half of the 1990s,] I attended the BIS meetings in Basel where we exchanged our central bank governing experiences. This was a fundamental learning opportunity. For example, we discussed what was meant by independence, transparency and accountability; why they are important; how they should be implemented. . . . We formed such common views that price stability should be the only objective, the bank should set interest rate and it should not lend to the government/Treasury . . . . I got central banking culture from there. . . . I also examined various central bank laws. (Central bank governor 2 interview, March 20, 2006, Istanbul)

During this period, the CBT also received technical assistance from the European Central Bank and discussed the draft with the IMF. In addition, academic research on central banking shaped the cognitive content of CBI idea: “I was influenced by the articles of [Alex] Cukierman on increased legal and actual independence and decreased inflation which had an impact on my way of thinking” (Central bank governor 2 interview, March 20, 2006, Istanbul).

The CBT’s main allies in its struggle for independence in domestic politics were two external actors. These were the IMF and the EU. Turkey’s first IMF standby program was launched in 1961, the same year its relations with the EU began. Following the 1994 financial crisis, Turkey signed the sixteenth standby agreement with the IMF after a decade and started the seventeenth standby program in 1999. The IMF lending was conditional on the adoption of neoliberal policy prescriptions, which also included CBI. Specifically, in December 2000, the IMF exercised its strongest push toward CBI. In a letter of intent to the IMF, the then minister of economy and Central Bank governor promised that “a new central bank law will be enacted by the end of April 2001” (IMF 2000). However, there was no guarantee that the new law was going to be enacted, as the previous stabilization programs were not implemented by Turkey during the program years (for noncompliance with the IMF programs in Turkey, see Evrensel 2004). Specifically, “program ownership was lacking at ministerial level” (Central bank governor 2 interview, March 20, 2006, Istanbul). Thus, the IMF standby agreements were not necessarily translated into governmental agendas and policies, due to a credibility problem that would require effective policy entrepreneurship operating in a critical juncture. It seems that external coercion via conditionality or presence of
“external anchors” is a necessary, but not wholly sufficient, condition for institutional change and spread of neoliberal economic ideas.

In regards to the EU, Turkey was given the status of a candidate country at the Helsinki summit in December 1999. The EU demanded a new central bank law consistent with the EMU with a view to Turkey’s prospective membership in the EU. As such, the EU, with the accession process that required Turkey to adopt and implement the complete EU legislation and standards—the _acquis communautaire_—also exerted pressure over the government for the legal reform. Specifically, the European Commission in its progress report on Turkey noted that the CBT’s “statutes still need to be aligned to assure the full legal independence” (CEC 1999, 39). In 2000, the CBT governor at the time demanded the then prime minister to accept the draft law. The attempt failed, however, due to “an allergy of the prime minister to the idea of independent agencies” (Central Bank governor 2 interview, March 20, 2006, Istanbul). Indeed, the Turkish politicians competing for the vote maximization were traditionally keen on the politicization of interest rates and the preservation of the CBT’s funding of budget deficits (Bakir 2007, ch. 1).

Before 2001, the “ideational entrepreneurs,” either as multilateral/supranational organizations or as individuals (e.g., CBT governor), could not persuade Turkish politicians to reform the central bank law. Further, the institutional reform did not take place despite the IMF conditionality, the legal obligation in the form of convergence in central banking practices with those of the EU, and the central bank governor’s processing and transmitting the ideas of epistemic communities for legal independence. The “ideational entrepreneurs” shaped only the content of the draft law rather than the governmental agenda. There were two main reasons. First, the institutional structure in the financial services industry was advancing powerful ideas, along with economic and political interests. Second, there was an absence of a policy entrepreneur operating at a critical juncture. A policy entrepreneur would be able to translate new powerful ideas into policy processes and utilize discourse to change well-established financial policy networks’ subjective perceptions and preferences about their interests. It seems that new ideas do not prevail, despite the pressure of ideational entrepreneurs, when domestic institutions, interests, and dominant ideas are clear and aligned toward the status quo, and a policy entrepreneur challenging this stability is absent in the policymaking processes.

**Policy Entrepreneurship and Mediation in a Punctuated Equilibrium**

Kingdon suggests that “agendas are not first set and then alternatives generated: instead alternatives must be advocated for a long period before a short-run opportunity [i.e., policy window] presents itself on an agenda” (Kingdon 1995, 215). A “policy window” refers to “an opportunity for advocates of proposals to push their pet solutions, or to push attention to their special problems” (Kingdon 1995, 165).
A policy window for Washington-based ideas and policy entrepreneurship was opened with the February 2001 crisis. Following the crisis, Turkey witnessed the largest economic recession in its history: Real gross domestic product (GDP) contracted by 7.5%, while the inflation rate was at 68.5% in 2001 (CBT 2003, 12). The unemployment rate jumped from 6.5% in 2000 to 8.4% in 2001. The TRL depreciated by 115.3% against the U.S. dollar. The financial cost of the crisis in 2001 was USD47.2 billion in taxpayers’ money, with capital support provided to insolvent banks to rehabilitate the banking sector (SPO 2004, 72). The cost constituted 32% of GDP in 2001. Seven banks became insolvent and were taken over by the Savings Deposit and Insurance Fund (SDIF).

Following this devastating financial crisis, there have been radical political impact (i.e., the effects on government and political parties in the parliament) and policy impact (i.e., a window of opportunity was opened for policy entrepreneurship for policy and institutional changes). In regards to the political impact, there was a legitimacy crisis in the Turkish politics with strong public distrust of and anger at the weak coalition government, as evidenced by opinion polls. The government had lost its domestic and international credibility. Against this background, on March 2, 2001, Kemal Derviş, the World Bank’s vice president for poverty reduction and economic management, was appointed as new Minister for the Treasury and Economic Affairs.

General public and the domestic policy community at large considered him to be an international bureaucrat who had, as the then prime minister noted, “rich knowledge and extensive experience on economic issues and international economic relations” (BBC News 2001). He also received widespread national and international media coverage where he was hailed as a messiah who could rescue the economy in the crisis through radical institutional changes in the realm of economics (BBC News 2002).

Derviş represents a powerful agency with multiple identities that enable him to operate in different ideational realms as decision maker (e.g., politician and bureaucrat), theorist (e.g., academic and intellectual), and framer (e.g., spin doctor publicizing favorable interpretation of some of the neoliberal ideas), as well as mediator. Specifically, Derviş was a member of the transnational epistemic community sharing basic beliefs, values, and norms of liberal economic ideas as an academic, economist, and bureaucrat during his 24-year career at the World Bank (Derviş, Asker, and Işık 2006). Further, in the crisis environment, he was perceived by the domestic policy community as a nonpartisan, international technocrat who became minister. Thus, he was accepted as legitimate by both domestic policy and transnational communities due to his overlapping membership, knowledge, and expertise. His diverse social, organizational and institutional ties also helped to inject an element of optimism, aiding to build trust in the viability of the neoliberal restructuring of the Turkish state in the postcrisis era. Not surprisingly, within a month of his arrival
onto the Turkish political scene, the unknown and unelected Derviş had a
“63% approval rating which [was] three times more than the next most
popular political leader” (Euromoney 2001, 38).

As Kingdon (1995) suggests, there are three kinds of processes involved
in determining the governmental agenda: problems, policies (or solutions), and politics. For Kingdon, first contributors to governmental
agendas might be “problems pressing in on the system” (16). A second
contributor “might be a process of gradual accumulation of knowledge and
perspectives among the specialists in a given policy area, and
the generation of policy proposals by such specialists” (Kingdon 1995,
17, emphasis added). A third influence is political processes—such as
public opinion, interest group behavior, and changes in government or
ministers—that may establish new agendas or modify existing ones. In the
governmental agenda-setting processes, according to Kingdon, problems,
policies, and politics flow independently, but policy change happens on
occasions when they can be coupled (Kingdon 1995, 172–179). This cou-
pling happens when policy entrepreneurs exploits window of opportu-
nity to push for the solution or to focus attention on a certain problem
(Kingdon 1995, 179–184).

The time for the postcrisis restructuring of the Turkish state based on a
neoliberal program that also included CBI came with Derviş when the
window of opportunity was opened with the 2001 crisis.

The crisis punctuated stability in “crony capitalism” as being embedded
in the Turkish financial system. Derviş, as a “policy entrepreneur,” used
this window of opportunity for the neoliberal restructuring, and com-
bined problems, policies (e.g., solutions), and politics. He acted as a pur-
poseful policy entrepreneur to focus attention on the problems and to
push the favored solutions of the ideational entrepreneurs. Specifically, he
carried, connected, and decontextualized different kinds of ideas such as
programs and paradigms as well as communicative and coordinative
discourses to affect policy and institutional changes (for these two basic
forms of discourse, see Schmidt 2008a). On April 14, 2001, Derviş identi-
fied problems and solutions in a “Transition Program to a Strong
Economy” (Treasury 2001). For example, he declared that “[t]he current
crisis has stemmed from the problems of the banking sector” (Derviş
2001). The banking sector was “the most urgent problem” (Pope 2001b,
A15). The solutions proposed were based on the WC, such as prudent
cfiscal (e.g., tax reforms, fiscal restructuring, and the removal of extrabud-
getary funds) and monetary policy measures, rationalization and privati-
zation, and the PWC, such as good governance, central bank
independence, new banking law requiring the adaptation to international
norms such as Basel II and rehabilitation, and restructuring of the banking
sector, including socialization of bank failures (Treasury 2001).

These solutions were translated into the 15 laws that had been men-
tioned in the comprehensive IMF standby agreement. A neoliberal
program based on this agreement was presented by Derviş as “the
national economic program” (Treasury 2001). He noted that these legal reforms were needed to achieve three objectives: build confidence for the economy, put inflation on a downward trend, and generate economic growth. In regards to the communicative discourse, the program was publicly legitimized by Derviş in the rhetoric of the EU convergence where media played the key role in framing its terms: “The economic program is prepared in full compliance with the National Program to the EU . . . Indeed, our economic program represents the economic dimension of the National Program to the EU” (Derviş 2001). In doing so, Derviş not only linked neoliberal policy reform to political membership but also aimed to generate public ownership of the program, which was somewhat similar to the diffusion process based on emulation.

Between March 14 and April 3, 2001, bureaucratic coherence, coordination, and collaboration in the policy process to implement the program were formed quickly by Derviş around the Ministry of Economy and key economic bureaucratic agencies. The new Governor of the Central Bank, Chairman of Banking Regulation and Supervision Agency, Undersecretary of Treasury, and Chairman of the Public Banking Executive Board were all appointed by Derviş in this short period of time. In doing so, Derviş formed much-needed bureaucratic power and technical support behind him.

Derviş also strove to secure a societal cooperation and consensus over the new economic program through meetings with representatives of business associations and labor unions (Derviş, Asker, and İşık 2006). In those meetings and public announcements, he focused on aggregate welfare improvements rather than on the distributive effects of neoliberal restructuring arising from tight fiscal and monetary policies. This strategy contributed broad societal and public support to the policy and institutional change initiatives. Powerful industrialists redefined their interests in terms of supporting the IMF program that would bring the budget deficits, public debt, and inflation under control (Hürriyet 2001a). For liquid asset holders, who traditionally had vested interests in the high level of real interest rates, the new institutional environment would not mark a fundamental departure from the past: The CBT, preoccupied with the price stability, would let interest rates grow artificially too high in order to push inflation down to single digits through cheap imports, while allowing TRL to appreciate in real terms against major currencies. In this environment, Labor was preoccupied with exerting upward pressure on wages and the government’s social programs rather than forming a soft money coalition. It seems that already existing problems are more likely to be perceived as requiring policy and institutional changes if policy entrepreneurs gain and retain public support through the communicative and coordinative discourses.

Derviş was also instrumental in utilizing coercion by conscious manipulation of incentives by the IMF to press for the implementation of the program. For example, to exploit the short-run opportunity, on April
16, 2001, Derviş argued that if the 15 laws were not passed by Parliament in 15 days, Turkey would not receive the IMF financial support and would default on its debt (Hürriyet March 27, 2001b). CBI law, along with the remaining laws, was among the IMF loan conditions and the government had no choice but to signal its commitment to the reform agenda to creditors.

In his first visit to the Turkish Parliament on April 18, 2001, he coupled problems, solutions, and political opportunities in central banking. Derviş established causality and referred to foreign evidence to facilitate this coupling. His coordinative discourse that took place among policy actors showed that he endorsed policy images, “a mixture of empirical information and emotive appeals,” in the legislative process (True, Jones, and Baumgartner 2007, 161). He identified the government’s access to the CBT’s resources as one of the major causes of high inflation. He proposed a central banking reform providing legal independence to the CBT from the government as a major solution. Derviş effectively linked these two to the legislative process: “Latin American and Asian experiences showed that central bank autonomy and independence is of utmost importance to bring inflation down in the long term. If we love Turkey, we should show clearly that we will not accept 60%-80% inflation and do the required institutional adjustment” (cited in Referans 2001). As such, in the diffusion process of the CBI idea, Derviş emphasized lesson-drawing from the experiences of other countries in designing the post-crisis monetary governance.

However, the parliamentary debate revealed a resistance to CBI legal reform. Both members of the government and the opposition members, who were traditionally keen on the politicization of interest rates and having CBT dependent, argued that the legal independence meant delegating a substantial portion of economic policymaking to the “unaccountable” CBT. However, the policy image of CBI, which was associated with monetary stability and economic welfare, was widely accepted in the crisis environment and gained policy monopoly over the images of democratic deficit in monetary governance proposed by the opponents in the parliament.

The idea of a central bank legal reform gained legitimacy in the legislative process with Derviş. On April 25, 2001, the parliament passed the law giving independence to the CBT. Apparently, ideas for institutional change are more likely to be adopted by legislators if their policy images gain policy monopoly due to policy entrepreneurship.

The IMF’s response to financial crises in developing countries has been criticized for exacerbating economic downturns due to macroeconomic
mismanagement (Stiglitz 2002). It has been widely accepted that the 2001 crisis was largely due to the IMF’s poor diagnosis of economic conditions in Turkey, which led to shortcomings in the design of an exchange rate-based December 1999 stabilization program, misguided crisis intervention, and credibility problem (for detailed discussions, see Akyüz and Boratav 2003; Önis and Bakir 2007). However, following the 2001 crisis, Derviş was also instrumental in securing contextual revisions in policy prescriptions imposed by the IMF in intergovernmental negotiations. He translated structural problems and fragilities in Turkish public finances and the banking sector to the IMF, which were later reflected in the stabilization program.

There were three major areas related to central banking where effective policy mediation helped to prevent mistakes in the design and implementation of the May 2001 IMF program. The first conflict was over the issue of whether Turkey should adopt a floating or fixed exchange rate system. However, as an insider to the multilateral financial organizations, Derviş knew the tricks in intergovernmental negotiations:

The IMF pressured for the establishment of a currency board. This was a dominant paradigm of the day that it would eliminate inflationary expectations. We commissioned an opinion article showing that currency boards would not work in countries like Turkey to well-respected economics professor who was an expert on this issue [Nissan Leviatan]. We included this paper as a third party view in our negotiations with the IMF. . . . It was influential and we convinced them. (Treasurer interview, April 21, 2006, Istanbul)

The second conflict was over the issue of whether the CBT should provide loans temporarily to the Treasury to finance government expenditures on insolvent banks taken over by the SDIF (Treasurer interview, April 21, 2006, Istanbul). The IMF was persuaded that there had to be a temporary exception in the new central bank law. Based on this exception, the CBT provided funds to the Treasury for bank bailouts, which was equivalent to about 68% of the year 2000 budget (Erçel 2003, 182–183). In the words of a former central bank governor, “without such funding facility it would not be possible to solve the problems in the banking sector which would lead to another crisis” (Central bank governor 2 interview, March 20, 2006, Istanbul). The provision of the CBT funding facility enabled effective capital restructuring of the fragile banking sector following the crisis.

The third major conflict was over the issue of whether the implicit inflation target was to be set at 20% or 35% for 2001. Derviş won the debate that 35% was a feasible target, the realization of which would bring credibility to the program.

As such, Derviş was pivotal in resolving conflicts with the IMF officials. In the words of the Treasurer who participated in these meetings with the IMF:

Derviş is an international bureaucrat who worked in these international organizations. But, he is also internationally well known academic especially in the field of economics. When you combine these two features, it becomes so easy to
convince the representatives of international organizations and markets. . . . At the end of the day, the IMF officials are economists. It is not that hard to convince them if you are well-equipped. (Treasurer interview, April 21, 2006, Istanbul)

Apparently, effective policy entrepreneurship is more likely to result in IMF standby agreement, which is contingent upon contextual needs.

Derviş was also successful in translating preferences of international capital into domestic policies and institutions. The key examples include: focusing on a large primary surplus (i.e., 5.5% of GDP) to strengthen the government’s debt payment capacity at the expense of social spending; a new banking law that socialized the USD5.4 billion of foreign bank loans that were locked in insolvent banks taken over by the SDIF; and the adaptation to international banking norms that facilitated substantial increases in foreign bank equity ownership from 4% in 2002 to 22% in 2006, while domestic actors did bard the distributional costs of the regulatory changes such as adaptation to Basel II; and finally, pressure over the ultimate privatization of state-owned banks (Bakir and Önis Forthcoming). Apparently, economic ideas and interests of international financial capital are more likely to be institutionalized under effective policy entrepreneurship.

Following the November 2002 elections, new Justice and Development Party government successfully implemented this program, which was revised in early 2002 to cover the 2002–2004 periods. Following the Turkish crisis in 2001 and before the global credit crunch in 2008 (i.e., between 2002 and 2007), GDP growth rate and inflation rate averaged 6.8% and 13.8%, respectively (Bakir 2009). The public sector scored well in public finance and debt-related indicators due to a primary surplus, which averaged above 5% of GDP during the same period. In 2007, Turkey performed well in regards to the Maastricht criteria for general government budget deficit (i.e., 3%) and for public sector gross debt stock (i.e., 60%), which stood at 1.3% and 38.9%, respectively. In the words of an investment bank, for the first time, “Turkey became the poster child of the IMF for successfully implementing its reform and stabilization program in the aftermath of the 2001 crisis” (UniCredit 2008, 20). As such, at least in the Turkish context, a credibility problem of domestic implementation in the international diffusion of ideas is less likely, while institutional change is more likely to be sticky under policy entrepreneurship. It seems that the compliance with the IMF and the EU conditionality is more likely when a policy entrepreneur translates and decontextualizes ideas and steers their implementation at the outset toward policy and institutional changes.

**Conclusion**

This research contributes to the empirical application of policy entrepreneurship within institutional theory, the public policy field, and the literature on the diffusion of ideas. In particular, policy entrepreneurship
applied here provides deep insights into debates on how and why institutional and policy change occurs, and how institutional and public policy approaches can complement one another. Policy entrepreneurship framework has not typically been adapted to conduct an empirical analysis that stresses interactions between structure and agency that lead to policy and institutional change and success, yet this study has illustrated its analytical value.

This article has argued that institutional and policy innovation is more likely to occur when policy entrepreneurs with joint membership in domestic and transnational policy communities mediate various ideas and discourse within and among these communities in a punctuated institutional equilibrium. The identification of policy entrepreneurs as agents operating within institutions where they mobilize ideas and discourse and resolve conflicts toward institutional and policy change in a crisis environment is fundamental for giving the historical institutionalism and policy theory more explanatory power.

The Turkish experience shows that the institutional change did not take place before the 2001 crisis due to two main reasons. First, the then-existing institutions including incentive-based structure, path dependency, and dominant ideas constituted structural constraints. As it could be expected by rational choice, historical, and organizational institutionalists, the CBI reform did not take place because the strong ideas and interests were aligned with the then-existing institutional structure. Second, there was an absence of a policy entrepreneur operating at a critical juncture. However, the unexpected occurred in this institutional structure (i.e., legal independence given to CBT), due mainly to various ideas and discourse invoked by a policy entrepreneur in response to the 2001 crisis.

If the findings presented here survive new cases and/or statistical tests, it further contributes to our general understanding of policy and institutional changes not only at national levels but also systemic levels. An area into which this study can be extended is the examination of whether there will be a radical institutional change from neoliberalism to Keynesianism when the neoliberal institutional equilibrium was punctuated at global, regional, and national levels by the global financial crisis in 2008. We need to learn much more about how and why policy entrepreneurship facilitates or impedes such an institutional change at various levels.

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Notes

1. The semistructured interviews with open-ended questions took place in Istanbul and Ankara between July 2005 and May 2006.
2. The 2001 financial crisis is highly illustrative. Four major foreign banks had privileged access to USD2.9 billion CBT reserves immediately before the crisis (Boratav 2007, 202).

3. For example, following the 2001 crisis, USD5.4 billion foreign loans locked in insolvent banks taken over by the Savings Deposit and Insurance Fund were covered by the Treasury guarantee (Şanlı 2006).

4. For example, according to a poll, two-thirds of respondents indicated that they did not trust the government and 55% thought it had to resign (Pope 2001a). It has been shown that voters preferred the opposition parties far more than the three parties in the ruling coalition. Indeed, following the November 2002 elections, the first single party government in 15 years was formed under the aegis of a new political party. Further, nine out of 10 political parties of the previous parliament were pushed out of the legislature by the electorate, while for the first time in 40 years there was only one opposition party in the new parliament.

5. Indeed, financial capital has been the key winner of low inflation and high real interest rate environment in the postcrisis era. For example, the CBT real policy rate of 4.7% (i.e., the nominal rate deflated by inflation) was the second highest rate among a selected 37 emerging countries in 2008 (IMF 2008, 46). Further, between 2002 and 2007, real interest rates for government securities averaged 15.76% while financial arbitrage averaged 22.8% (for a detailed discussion on perverse financial incentives in the postcrisis era, see Bakir and Önis Forthcoming).

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