Fictitious Capital Speculation and Financialisation: Critical Moments of Instability, Crisis and Intervention in the Turkish Experience

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1. Introduction

The dominant tendency in the debate of financialisation is to analyse the changes in the centres of accumulation. Financialisation in “emerging markets”, if found worth discussing, is subordinated to the “international” financialisation, or at best portrayed as end result of the financial deepening that was seen in these economies in the last couple of decades. This study aims to underline the role of state intervention, particularly in the field of debt management, in the process of financialisation. It will be argued that the “emerging market” financialisation is based, among other transformations, on the changing mode of integration into the world economy. This new mode foresaw the resolution of sovereign debt problems in transforming sovereign debt commitments into tradable papers. For the overall discipline of economy, the end of “financial repression” was also emphasized. Financial liberalization and persistent debt problems in conjunction with market solutions thrust financial motives and financial operations forward. Neoliberal state intervention provided the legal-political framework of the profound transformation and repressed the oppositional discourse throughout the period. It was, to put in blunt terms, critical for financialisation; not only in the sense of dealing with ramifications of the process, but more importantly for the kick start of the formation of functioning domestic financial markets as we know them today.

Close investigation of the moments of instability in Turkish experience will reveal that state intervention, despite temporary setbacks, was committed to augmenting the financial market. The bank-based nature of Turkish financial system and state’s need to finance deficits composed a particular atmosphere for further development. In this environment of post-financial liberalization debt policy of government played a vital role for financialisation that cannot be identified solely with financial market deepening. ¹ The concern for sustainability of debt was accompanied and supported by the concern for development of bonds and bills

¹ We rely on the general definition of Epstein (2005) to some extent but mainly focus on the role of state and government debt instruments for understanding the increase of financial motives as well as the troubles of productive investment. For dimensions of financialisation see Lapavitsas (2009a). See also Langley (2007) for its discursive implications and subjection mechanisms.
market (secondary market operations), the consolidation of stock exchange market and bailing out banking sector. State played a vital role in all of them not only through regulations but also by persistent intervention in times of financial distress and instability. This is not to say that capitalist state had the capacity to regulate financial markets and provide a route for viable “regime of accumulation”. On the contrary, state intervention as a form is not devoid of contradictions because of the contradictory nature of the social relations of production and the forms they give away. As can be seen in Turkish case every step for overcoming financial instability brought about new problems as much as they helped money owners take a deep breath.

The following parts attempt to explain the mentioned argument and critically reflect upon financialisation literature by pointing out Turkish case. Following section presents a brief discussion on financialisation and emphasizes the need to integrate the financialisation of “emerging markets” into the picture. Third section provides a background for analysis of political economic developments in Turkey. Fourth section focuses on two critical moments for elaboration of the argument: in late 1993 and early 1994 the so-called tax reform and the unwillingness of the policy makers to tax the incomes gained by bond trade and in mid-2001 the domestic debt swap for bailing out banks and guaranteeing the sustainability of debt. The last section concludes by summarising the study.

2. Financialisation in “Emerging Markets”

The dominant tendency in the debate of financialisation is to analyse the changes in the centres of accumulation whereas the countries with shallow financial markets dominated by government bonds remain outside, or at best they are taken into consideration to the extent the mechanisms of finance and banking operations come to bear resemblance to those in Western developed economies. For an analysis with regards to Turkey, see Ergüneş (2009).
disciplining the investment decisions of the firms that are scrutinised by the stock exchange markets. Though the recent credit crunch and the illiquidity of the investment banks are related to the new techniques of claiming wealth on future payments of the debtors, taking its infamous form in collateralised debt obligations (CDO), i.e. the packaged pieces of debts to be sold in the financial market; it has a common element with the conventional stock exchange operations in the sense of the quality of exchanged papers. Both the shares of the corporations and the CDOs held by the investor are objects of concern and evaluated from the viewpoint of the investor on the basis of the yield they will produce. Whereas the CDOs, say, symbolising the debt of homeowners and various forms of debt instruments promise the flow of a part of the debtor’s income, the shares promise a flow of the part of the surplus value to be produced in the sphere of production. Their similarity is clear however, from the viewpoint of the investor, no matter if it is an investment bank or a pension fund controlling huge cash reserves. It is the promise of a future income that is exchanged in the financial sphere.

The form is either debt payment or dividend, symbolising variety of income streams. Capitalisation of future income implies the formation of a capital that does not exist in real terms but functions as if it does. The exchange of promissory notes and their nominal value depends on the interest rate and the speculation on future income. On such a terrain, M – M...C...M’ – M’ takes the form of M...M’. For money-dealer or financial investor in our case, it appears as interest-bearing capital (see Marx, 1991: chapter 21). Capitalisation of future income, through the formation of a capital that does not exist, is indeed an abstraction from the sphere of production. Fictitious capital is a “title to value” (Marx, 1991) in a similar manner to the loanable money capital. For loan capital exists as “a claim to money” in Marx’s words it is purely fictitious in the sense of being a claim to the value to be extracted in the sphere of production. The accumulation of these claims does not necessarily appear as related to the accumulation whereas the actual accumulation process, in light of the general formula of capital, would form the basis on which the value to be claimed would be realised.

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3 In his notes edited by Engels to compose 3rd Volume of Capital, Marx dealt with the process of capitalisation and asserted that it formed the essence of fictitious capital formation. For Marx, “[T]he form of interest-bearing capital makes any definite and regular monetary revenue appear as the interest on a capital, whether it actually derives from a capital or not. The money income is first transformed into interest, and with the interest we then have the capital from which it derives.” (1991: 595). This basic process appears to weaken the conception of the link of the expansion of value with the production process and the calculation of the income as “the sum that a capital lent out at this [average] interest rate would yield” (1991., p. 597) gives an image of capital as valorised without any connection to the actual circuit of capital.
These remarks on fictitious capital formation can be extended to the sphere of household and sovereign debt. A particular income stream such as the future debt payments of households is similar to the claims on the future tax income of a particular state. In other words, these debt papers allow for fictitious capital formation and may push for financialisation given the necessary regulations and intervention. The formation of an atmosphere in “emerging markets” in which the financial institutions play a vital role in the functioning of the economy, or the financial motives impact upon the decisions of real sector agents in an increasing manner can be perceived as a result of the particular forms of state intervention in these countries. One important mechanism is the issuance of government debt instruments (GDI). Financialisation of “emerging markets” whose financial markets lack richness in derivatives and overall deepness when compared with the Anglo-saxon financial markets, increased substantially thanks to the fictitious capital formation and speculation on fictitious capital. The “domestic” financialisation in “emerging markets”, it seems appropriate to claim that, can be linked to international financialisation on such a terrain. It can be traced back to, among other things, to the attempts to resolve sovereign debt problems according to market rules in the 1980s. The dynamics of international financialisation provided additional impetus through the process and financial liberalisation allowed the inflow of funds necessary also for the financing of sovereign debt.

It can be recognised, however, that the “domestic” financialisation of the “emerging market” economies is handled in different terms. More specifically, the time lag between “international” financialisation and “domestic” financialisation is portrayed in such a way that the financialisation is thought to “embroil” (Lapavitsas, 2009b) these “emerging markets”. Either by way of further financial regulations and foreign bank entry or as a reaction to increased financial instability in the global economy, financialisation occurred in emerging markets in the mid-1990s and 2000s. These countries are portrayed as the railway cars drawn by the locomotive of “international” financialisation, but as if a considerable time should have elapsed before the followers left the station.

Notably, Panceira (2009) claims that public domestic debt has increased in these countries; this was a method used by governments for overcoming the foreign debt service problem. His main focus is, however, on the strategy of reserve accumulation. After the Asian crisis of 1997 and as a result of continuing financial instability, “developing country” authorities opted in reserve accumulation and hoped that this costly precaution will help them in the future. As the
reserves were mainly composed of U.S. dollars and dollar denominated bonds by U.S. Treasury, this meant practically capital outflow from these markets. This process also underlined the fact that U.S. was the biggest borrower in global economy.

Lapavitsas (2009b), dwells on the mentioned reserve accumulation and touches upon the change in the mode of integration of “developing countries” into the world economy, only to focus on the foreign bank entry into these markets and the growing importance of financial institutions. He posits that the mechanisms of financial expropriation are increasingly coming to the fore in the functioning of these economies. The emphasis is, however, on the withdrawal of funds during the 2007-2009 crisis of financialisation and the ways the crisis within the context in which financialisation embroils developing countries, impact upon these economies.

Notwithstanding the relative absence of a discussion of financialisation in “emerging markets”, one can find yet another approach that is directed to measuring the alleged level of financialisation. Hardie (2008) defines financialisation in simple terms as the increased “ability to trade risk” and deals with the emerging market bonds. The empiricism of his understanding leads to proposition of a scale in which the loyalty of the investors combined with an analysis of the deepening financial markets and reforms forms the basis for measuring the risk trade. Intense focus on government debt instruments is because of the fact that these papers dominate the financial market, in Hardie’s selected cases, Brazil, Turkey and Lebanon. Financialisation, however, occurs if the mechanisms for exchange of GDI are provided. The atmospheric pressure for financial investment then depends on the effective functioning and liquidity of the market.

In two of the three studies mentioned above financialisation is discussed with reference to global political economic developments, whereas the third emphasizes more of the internal functioning of the financial market and investments. We need both for an effective analysis of “emerging market” financialisation, but more than this, the “domestic” financialisation should be grasped in broader terms as a process in which the domestic actors find not only another niche for imposing monetary and financial discipline but also grasp financial motives, operations and deepening as vital for substantiating the changing mode of integration into the world economy.
This new mode of integration was unfolded through the international debt crisis that was preceded by capital inflow to the countries, which would be labelled subsequently as “emerging markets”. Vasudevan (2009) mentions that Eurodollar market became the “anchor” of the newly emerging “floating dollar standard”, while the elimination of capital controls in 1974 in the U.S. was accompanied by the increase in the recycling of petrodollars. The debt of the newly (or late) industrialising countries grew substantially in the 1970s (see Balkan, 1994). The inability of these countries to payback as a result of interest rate hike, namely the Volcker shock, reversed the trend of increasing capital inflow to “emerging markets”. The financialisation of the emerging market economies is interconnected with the developments in the aftermath of petrodollar recycling and international debt crisis.

The neoliberalism as economic policy making and ideology gained ground in these developing countries or “emerging markets” in this period and trade liberalization and financial liberalization along with the necessary regulations-deregulations imposed by Bretton Woods institutions became the basic recipe for many to overcome the economic troubles. This market fundamentalism found its echoes in the belief that the countries suffering from insufficient savings should liberalise their economies to receive their share from the mobile capital in search profitable returns, which would in turn help rationalise investment decisions and boost economic growth. Development of financial market was integral to such an understanding and steps taken in that direction received scholarly praise from international financial institutions.

As much important was the securitisation of debt of the “emerging markets” in the late 1980s. The initial response to the debt crisis was offering new credit lines, however this “new money” (Marx et. al., 2006) approach did not work since the creditors found it unattractive to extend debt payments or offer new credits, while the repayment, at least the return of the money they allocated for the operation and especially in the case of multi-creditor debts, could not be guaranteed. As Sachs and Huizinga (1987: 567) argued in their portrayal of the “LDC” debt crisis and the attempts to resolve it, the earnings of major banks were not affected significantly, as the interest due was serviced, whereas the continuation of the problem, since the secondary market price of the debt was in decline, would mean huge losses on that front. There were many attempts to minimize the risk exposure on the sides of both creditors and borrowers. Debt-equity swaps formed the prime examples. The Brady bonds, following the name of U.S. Treasury Secretary Nicholas Brady, as tradable papers paved the ground for
transformation of debt into tradable assets and spread the risk across international financial markets (Vasudevan, 2009: 297). The U.S. Treasury Bonds served as collateral to newly issued “emerging market” bonds, which signified the securitisation of past debt through financial instruments. Under the auspices of financial liberalisation wave and the dynamics of financialisation it brought about the proliferation of a market for “emerging market” bonds (see Marx et. al., 2006). Credit rating of these “emerging markets” (including those who did not partake in Brady plan) became extremely important for debt rollover and it provided an additional impetus to stick with the sermon preached by international financial institutions. Overall speaking the neoliberal transformation in “emerging markets” did not solve the problem of debt service but provided a profitable field of speculation and financial innovation in which the claims on future wealth of nations are exchanged.

3. Financial Liberalization and the Role of GDI for Financialisation in Turkey

Turkey launched her structural adjustment program in the 1980s with a strong commitment to export orientation and trade liberalisation. Export subsidization and wage repression in order to restore the profit rates were determined as the key mechanisms for overcoming the crisis situation of the late 1970s. Real wages declined more than 30 % in the 1980s (Boratav, 2004) and the ratio of export income to GDP increased substantially. Turkish experience, however, cannot be easily described as a thorough industrial restructuring or deepening. To find a new regime of accumulation, at least in the first half of the 1980s would also be futile despite the changing dynamics, because of the trade liberalization and partial financial liberalization. It is not only because of the importance of domestic market for the manufacturing sector (Yalman, 1997) but also the fact that it is highly questionable to name alleged “internationalization of capital” (Gültekin-Karakaş and Ercan, 2008) as a new regime, given the maintenance of the basic characteristics of manufacturing sector and slight changes in the investment pattern of Turkish private sector (see Yalman, 1997: 195-196).

“Creditworthiness” of the country praised by then Prime Minister Özal formed the basic pillar upon which the integration of the country into the world market rested. This explains the climate of thought prevalent in Turkish policy circles in the early 1980s: The macroeconomic stability of the country was linked to the ability of the country to sustain the inflow of funds necessary for export subsidies and financing public deficit. Despite the primary current account surpluses in the 1980s, the public debt burden of the country gained weight as a result
of the export incentives (Boratav et. al, 2000) and the use of extra-budgetary funds. The
depreciation of Turkish Lira on the other hand brought about the revaluation of foreign debt
which tolled the bells at the end of the decade.

Full convertibility of Turkish Lira and capital account liberalisation in 1989 served for the
capitalists that relied on the imports of intermediate and capital goods whereas the foreign
direct investments were expected to compensate for the deteriorating balance of payments.
Liberalization also enabled the government of the time to opt in for domestic debt. Turkey did
not issue Brady Bonds. The debt service problem of the country, however, necessitated the
inflow of funds and the country became an active member in the sovereign debt market in the
1990s. This is not to say that, the process of financial liberalisation was specifically designed,
in the case of Turkey for financing the rising public expenditure. It is rather underlining the
fact that by way of capital account liberalisation domestic actors extended their opportunity to
finance public debt by lending government the funds they obtained in the international money
markets. The expectation that the financial liberalisation will serve for disciplining the
investment decisions and pave the ground for more efficient allocation of the savings could
not be fulfilled since the real interest rate that the GDI offered were more attractive than
engaging in productive investment.

The dynamics of a financial crisis was set on as the interest payments of public debt conjoined
by rising public expenditure made the government seek short-term borrowing with high risk
premium. It is not easy to identify the policy change in the late 1980s with a reversal to
populism (cf. Boratav, 2004) since the wage increases in post-financial liberalization could
not be interpreted as transfer of wealth from upper strata in the name of defending the rights
of people. This brief period in which the public sector workers and officials, together with the
organized sections of the working class, enjoyed compensation of the past decrease in real
wages, should be understood as an attempt to contain the working class in a similar way to
those countries that could not cut public expenditures in the 1970s because of the need to
moderate public unrest.4

4 As Cleaver (1989) discussed, the debt crisis of the early 1980s could be read through a lens of class struggle by
pointing out the attempt of the so-called less developed countries to contain class struggle. The credit expansion
in the international financial markets had facilitated the use of funds by these countries whilst at the same time
condemned them to a debt spiral that will lead to decada perdida because of the interest payments and
unshakable belief of international financial institutions in the guilt of debtors as they deviated from the righteous
path of sanctified market forces.
The 1994 crisis which resulted in real devaluation and recession in the same year is usually related to either the macroeconomic imbalance of the country and structural problems such as increasing debt burden or the “policy mistakes” made by Çiller government (see, Özatay, 2000), which can be summoned up as not complying with the rules of the market. Indeed even if we take into consideration the cancellation of debt auctions (that are dubbed as policy mistakes) before the crisis, or the threat of cancellation by members of Refah-Yol coalition after 1995 elections, the debt dynamics revealed a consistency when the short-termism is highlighted:

The underlying characteristic of the domestic debt management was its extreme short-termism. Net domestic borrowings, as a ratio of the stock of the existing debt, hovered around 50% before the 1990s. This ratio increased to 105% in 1993, indicating that each year the state had to resort to new borrowing exceeding the stock of debt already accumulated. In 1996, this ratio reached to 163.5%. Thus, the public sector has been trapped in a short-term rolling of debt, a phenomenon characterized as Ponzi-financing in the fiscal economics literature. For this scheme to work, however, domestic financial markets required the continued inflow of short-term capital inflows. Thus, the episode of hot money inflows should be interpreted, in the Turkish context, as the long arm of fiscal policy, overcoming credit restraints and monetary constraints of the monetary authority. (Boratav et.al., 2000: 25)

This dependence on inflow of funds and the high interest rates of GDI increased the dominance of financial motives. The non-operating incomes of main industrial firms also increased significantly. Turkish banks were the main lenders in this Ponzi game and the economy revealed swings throughout the 1990s depending on the ups and downs of capital flows (Akyüz and Boratav, 2003: 1552). Macroeconomic instability led to “Close Watch” agreement with the IMF in 1999, which foresaw further cuts in public expenditure, regulation of banking sector and reform in social security system. It was not easy, however, to change the pattern imposed by financial liberalisation. Turkey experienced huge inflows of funds, appreciation of currency, rising trade deficits and exchange rate risks to be followed by huge outflow of capital in the 1990s and the 2000-2001 crisis was a repetition in that sense (Akyüz and Boratav, 2003: 1555). The sustainability of public debt and high inflation rate was again a major concern before the February crisis. The difference was the exposure of banks because of their short positions and the huge bailout cost. “The restructuring of the banking sector after the 2000 and 2001 financial crises placed a substantial burden on public finances. The government securities that were given to state and SDIF [Savings Deposit and Insurance Fund] banks in the restructuring process increased the domestic debt stock from 29% of GDP in 2000 to 66% in 2001.” (Binay, 2003: 255).
Despite the increasing importance of financial operations in the overall functioning of the economy and importance of speculation for capital groups, it is not viable to define the 1990s as the decade of “finance-led accumulation” (see Ataç and Grünewald, 2008). As the concept portrayed by Régulation-ists (see Boyer, 2000) would include the integration of the wage-earning strata in such a manner that the welfare effect created by asset price appreciation is used for fortifying a virtuous circle, 1990s Turkey hardly fits the definition. For, it was the aim of policymakers and financial investors to minimise the impact of vicious debt circle for capital in general, while paving the ground for capital groups to gain the utmost profit from related financial operations, leave alone searching for viability of aforementioned “finance-led accumulation”.

Turkish economy deserves however to be defined as financialising. It is not because of the rise of rentier income in the 1990s (Yeldan, 2004) or the speculation-led growth and dominance of financial capital fraction (see Ataç and Grünewald, 2008). In this bank-based financial system of Turkey in which GDI dominates the financial markets the process of financialisation had some peculiarities which cannot be seen in the market-based systems of developed countries. Financialisation in Turkey in broad sense can be concretised by delineating the forms of state intervention in the provision of not only the legal structure and post-crisis reforms for overseeing the financial markets but the continuous attempts to finance public sector. At the same time, an uneasy match between the debt sustainability concerns and the well being of banking sector and the newly developed financial intermediaries was formed. This process was ridden with contradictions that triggered financial crises which in turn helped, in Turkey in the absence of political and social resistance, other dimensions of financialisation, such as channelling household income into financial market, reveal themselves in due course.

There is a consensus in the literature that financialisation is unveiled in the staggering rates of growth. We think that, primary condition of financialisation is the mobilisation of capital, in and between the financial markets, not necessarily for “negating” production but also for future productive investment, sectoral change, takeover and so on. Turkish economy entered to the route of financialisation not as a result of the micro-finance strategies of firms financing their investment by bond issuance or stock market operations, or the parasitic activities of a rentier class. Financial liberalisation and the state crawling under heavy debt burden opened the way, whilst the capital groups that owned banks and revealed a diversified production
structure as a result of the Turkish industrialisation experience gained gargantuan profits by funding state. Turkish state played according to market rules⁵, which led to symptoms dubbed as speculation-led growth and deepening of financial system relative to former decades. Thanks to the role played by GDI in the 1990s, the bank-based financial system was capable of directing the attention to household income in the 2000s and passing through a possible extension via future consolidation of private bond market.

This supports the generalisation made by Painceira (2009) in his analysis of the root causes of “domestic financialisation” in “emerging markets” and the impact of global financialisation upon the developing countries. As underlined, financialisation in developing countries resided on increasing public debt for transferring capital to developed countries (Painceira, 2009: 10). Turkish case indicates that the transfer problem was on the agenda in the late 1980s and financial liberalisation helped government to finance public debt. The caveat, however, in adopting smoothly such an approach to Turkey is that, financial resources used by capital groups to fund public expenditure enabled significant transfers to Turkish capitalists as well. These funds themselves were liabilities to international financial markets. This did not however, avoid a transfer by the state, to holders of public securities and particularly domestic banks throughout the process, in our concern. Such a transfer required a giant and persistent operation in domestic political scene to avoid de-legitimation of market rules and forces.

4. Critical Moments of Instability, Crisis and Intervention

The public debt burden and financing of the debt have characterised the ways in which the shallow financial market of Turkey has deepened. To increase the opportunities for trading risk in the financial markets Bonds and Bills Market of Istanbul Stock Exchange has begun operations in 1991 (Akınç  et. al., 2006). Because of dependency of firms to banks for financing needs, this secondary market for exchange of bonds and bills did not serve as a private bond market but one dominated by speculation on interest rate of GDI. The exchange of promises on future yield of GDI was critical in that sense. Despite the fact that particular formation of the market constrained bond issuance by the firms, the existence of the secondary market contributed to attractiveness of GDI and financial intermediaries found an

⁵ Public bond market in Turkey provides an important locale for investment and takes the ninth place in the world according to the ratio of capitalization to GDP (see Gürün et. al. 2008). Considering the fact that Turkey is also among the biggest 20 economies of the world, the importance of public bond market and its construction in the 1990s can be noted.
investment avenue which was in turn critical for the sustainability of debt. Hardie (2008: 28) maintains that Turkish banks cannot fully exit bond market due to the relative size of bonds they hold and defines the situation as typical of loyalty. We can claim that the bonds and bills market provided a channel for trading risk and reduced the subjection of banks to the volatility of GDI yield.

State intervention in that field has been in the direction of paving the ground for trade of government securities by financial intermediaries. We have chosen two critical moments for discussing the significant role of GDI and the forms of intervention of the state. Turkish state, it seems proper to claim, alongside constructing channels for financial deepening and increasing financial motives, also treated favourably to financial market actors, most notably banks. The tax reform of the late 1993 and debt swap in June 2001 signify only two moments among dozens and they reveal this quality of state intervention in an illuminating manner.

Unwillingness to tax

During the autumn of 1993, government decided to lengthen the overall maturity of debt instruments, since the high interest rates and the shortened maturity signalled a cul-de-sac for Treasury. Turkey relied on foreign debt resources during the autumn and winter while Treasury cancelled T-bill auctions over and over again. As long as money to finance the interest payments and budget deficits could be found, at least it seemed so, Treasury would insist on borrowing long-term. Despite the plans of Çiller government, banking sector refrained from investing into government bonds and the rollover risk increased. Treasury used Central Bank resources, which ipso facto led to depreciation of Turkish Lira, because of liquidity injection (Binay, 2003).

It was estimated at the time that Turkish banking sector had an open position amounting to 4.5 billion dollars and representatives of the sector were not in favour of rapid depreciation of currency (Berberoğlu, 1993). The downgrading of Turkish sovereign debt, however led to devaluation more than % 13 in early 1994 and Treasury had to give away policy preference and stick to high interest rate T-bills. What was important for our concern is the intervention in the form of taxation and the tax reform during financial instability.

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6 Variety of GDI has increased considerably after 1999. Erbil and Salman (2006) touch upon this diversification despite their major concern revolves around debt sustainability and intertemporal government debt obligations.
Government launched a campaign for tax reform in autumn. Indeed, the quality of the changes could be foreseen by tracking the debate on indirect taxation (“Çiller: KDV’yı Düşürmem”, 1993). The so-called reform was presented as an endeavour to decrease the tax burden on fixed income strata of society (“Vergi Devrimi”, 1993), whereas the prime minister promised not to change tax code in a way to prevent financial deepening, i.e. taxing capital market operations (“Vergi Tasarısı Deliniyor”, 1993; “Faiz Vergisi Yumuşuyor”, 1993). The discussion on increased taxation of income from government bonds, it was claimed, led further volatility in the bond market (Kutlay, 1993). The irony is that, despite the rumours for an increase up to 35 % (Sağlam, 1993), in the end, 10 % tax withheld was halved under the banner of tax reform (“Vergi Zenginin”, 1993).

The debate revolving around withholding tax on bonds and bills occupies a considerable space because of the weight of GDI in the financial market. Financial crises, nevertheless, reveal opportunities to governments for providing tax exemptions or reductions to financial operations. In 1994, removal of formerly halved withholding tax was one of the first decisions after the crisis (“Çiller Piyasaya Yenildi”, 1994). In July 2001 too, through a legal change and exemptions, significant gains from bond trade and interest rate remained untaxed.

Debt swap

Reforms affiliated with post-Washington consensus had to wait the biggest financial crisis in the history of Turkey. Transition to Strong Economy program designed by the minister Kemal Derviş determined huge primary budget surplus and reduced inflation as the targets for overall macroeconomic stability. Banking sector reform would follow, so that the short position banking based on funding public expenditure and the gains from interest payments of past debt would come to an end. Indeed, the restructuring of the banking sector was already on the way before the crisis as the foundation of Banking Regulation and Supervision Agency (BRSA) indicated. The efficient functioning of the Agency, however, took a few years and had to wait further legal regulations in the 2000s.
The duty losses of the state banks were assumed by Treasury on spring 2001 ("Takvime Uymayan", 2001) and the banks taken under control by SDIF before and after the crisis were restructured in due course. This banking sector operation increased the domestic debt stock considerably (Binay, 2003). Worse was about to come due to the payments in 2001 and the overall shortened maturity average of debt instruments. Policymakers decided to organise a debt swap in order to lengthen the average maturity and overcome the rollover problem. The risk was that minimised participation of the banking sector would further deteriorate the belief in the ability of the Treasury to resolve the repayment issue.

June 15 swap was presented as a win-win situation and it was emphasized that the voluntary nature of the swap revealed its market flavour. It is known, however, that the Treasury and representatives of the banking sector met frequently before the swap for designing the quality of papers to be exchanged ("Takasta Bazi", 2001; Takasta İşlem Tamam", 2001). To help banks close their short positions, Treasury offered fx-denominated bonds in exchange of TL-denominated bills. Treasury also put TL denominated bonds in her bond-basket and the attempt to minimise the exchange rate risk taken by Treasury faced with a disdain from the banking sector. Two significant forms of intervention should be noted before moving onto the aftermath of the swap. First one is that Treasury determined prices of the bills and bonds that will be exchanged, more than their secondary market price (Korcan, 2001) and guaranteed a minimum income by declaring a maximum price for non-competitive bids for 3 year maturity bonds. Secondly Treasury determined an exchange rate that will be implemented for the newly issued instruments, which was below the market price and Central Bank did nothing for rapid depreciation (more than 6 per cent) of Turkish Lira so that the banks joining the swap operation would further benefit from getting the fx-denominated bonds. By the help of these operations, Treasury assumed exchange rate risk, but also became more vulnerable to interest rate hikes because of floating interest rate TL bonds.

7 Head of Banking Relation and Supervision Agency Engin Akçakoca claimed that domestic debt papers were given to state banks for compensation of their duty losses and the operation ended on May 2nd.

8 In the words of then minister in charge of economy Kemal Derviş: “…. this operation is one which is also in the interest of Turkish banks, an operation that aims to make banking sector better serve real sector. Thanks to the swap, banks will overcome lira-dollar unbalance in their balance sheet.” (Ekonomiye Takas Nefesi, 2001).

9 This meant that Treasury guaranteed before the swap that the interest rates voiced by the banking sector would be met to a great extent (“Hazineden Takasa”, 2001).
7 billion dollars worth of debt instruments were exchanged during the swap and the maturity composition of domestic debt borrowing changed significantly.\(^\text{10}\) Notwithstanding the composition, the swap, on its own, did little to help Treasury have the means to channel liquidity into government bonds (Sak, 2001). Despite the new maturity rate, Treasury still had important amounts of payment to be made in domestic market and this led fluctuations in money markets. It was soon understood that policymakers were vain about the success of swap. Experts were well aware that the swap was a rescue operation and the risks of banking sector were assumed by the Treasury. BRSA (2001) declared that short positions of the banks were closed to some extent as the fx-denominated bonds compensated for dollar debts explicit in balance sheets. This did not facilitate, however, the end of exchange rate risk for banks. Turkish economy should have increased savings radically and rapidly for the desired tectonic shift in investment portfolio of banks. What was written after the swap preserved verity in the following years: “unless the deposit base can be enhanced to create loanable funds, the banks will find it fairly difficult to reduce their government securities portfolio and alter the composition of their assets” (Akçay, 2001: 46). It was a kind of euphoria to think otherwise,\(^\text{11}\) whereas since economic stability was identified with the sustainability of the debt, many commentators and economic policymakers preferred to do so.

5. Conclusion

The researchers dealing with financialisation in “emerging markets” or developing countries has varying approaches. Despite the definition of financialisation on a narrow basis Hardie (2008) focuses on public debt but only for measuring the alleged level of financialisation (ability to trade risk) in government bond markets. Panceira (2009) discusses financialisation on the basis of reserve accumulation and also states the importance of domestic debt accumulation for transfer of capital to developed countries. I believe these studies should be complemented by pointing out first, the role of public domestic debt in financial deepening, second, forms of state intervention for strengthening banking sector, financial motives and belief in market mechanisms and finally, detailed documentation of the financial atmosphere in which the non-operating incomes of industrial firms increased and the household income was channelled into the financial markets.

\(^\text{10}\) See [www.treasury.gov.tr](http://www.treasury.gov.tr) for annual statistics of domestic debt borrowing.
\(^\text{11}\) See Gürses (2001) among many other examples of journalistic writings.
As our selected moments indicate Turkish state was committed and subject to well-being of banking sector and the development of bonds and bills market. By the help of speculation on papers (GDI) that symbolise certain flows of (tax) income, in bonds and bills market, banking sector profited more and more from the spiral of public domestic debt, sustainability of which was a major concern. When important players in the banking sector became insolvent after the 2001 crisis, state proved vital for socialisation of the losses. The debt swap was designed for banks to cover their imbalances. These moments and the forms of intervention should lead us to the statement that Turkish state assumed important roles for augmenting financial market and consolidation of the position of financial actors, notwithstanding the mainstream perspective that scapegoats the state for dominating and squeezing financial market. Financialisation in Turkey was deeply related to the debt dynamics. To put in more general terms, perspectives on financialisation should be extrapolated, among other things, by also highlighting the intervention of the state: its vital role and limitations. The role of state and debt management should be a major concern for students of financialisation in “emerging markets”, whose studies may alter the dominant one-eyed focus on advanced capitalist countries when dealing with the international or global financialisation.
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