Financialization through State Intervention: The Role of Public Debt in Turkey

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Abstract
Financialization literature has pointed out that, the dominance of financial markets in the so-called developed countries impact upon the household and firm behaviour. This growing literature, however, has contributed little in terms of the importance of state intervention in the process of financialization and the financial activity in the so-called developing countries. The paper suggests focusing upon the public debt and its relation with the process of financialization to understand the puzzles in front of sovereign states and the changing form of state intervention in the post-financial liberalization era.

Turkish case, in that respect, provides evidence for the dominance of financial activity in the overall economy, whereas the banking system and the relations between Turkish state and the banking sector give a particular flavour to the process of financialization in Turkey. State restructuring paved the ground for financial market expansion and financial domination in Turkey High real interest rates and growing mountain of public debt in Turkey in the last decades contributed to the formation of a system in which the income transfer to the capital groups was realized through government debt instruments. The short positions of banks in the face of speculative outflows and exchange rate depreciation led to a huge crisis, but only to deepen the IMF policies rather than putting an abrupt end to this transfer mechanism. Although, it is a part of common sense in Turkish literature to suggest the “corrupt” relations between banking sector and Turkish state and the lack of fiscal discipline as the causes of financial crises, an analysis which takes the particular form of state intervention, as seen in the role of public debt, as a mechanism for income transfer and socialization of the costs of restructuring of capital seems necessary to point out the financialization through state intervention in Turkey.
I. Introduction

In July 2008, conservative Justice and Development Party not only celebrated the anniversary of her electoral victory with a fear of closure, but also polished her discourse based on the economic reforms and legal regulations after the 2000-2001 financial crisis, to prove indispensable for economic stability. Alongside the repeated economic growth discourse affiliated with the “circle of justice” type political declarations, some critical legal amendments regarding the public debt of Turkey have been made in the same month. One of these was the license given to the government for writing off the debt to Treasury, of the Savings Deposit Insurance Fund (SDIF), which was founded long before the banking crisis of the late 1990s and assumed, during and after the crisis, the duty losses of 22 banks as a result of pressure from financial circles. Before the legal change, the Treasury was supposed to receive approximately 90 billion YTL (new Turkish Lira) from the SDIF. Now, Turkish Treasury will receive nothing and continue to issue debt instruments to finance the interest payments of past public debt. This financial operation did not raise any serious objections, because of the focus on the decision of Constitutional Court in which the case about not only the government party but also the members of government party as well as the president of the country was heard. The decision of the court might have resulted in a legal-political crisis, but instead the case served as a further blanket over the raised questions on state terror in May Day 2008; and of course, on the volatility of global financial markets from which the money that Turkish economy depends on comes.

The corruption discourse initiated after the 2000-2001 financial crisis painted a flawed picture of state-business relations in Turkey. It was used for legitimation of second-generation neoliberal reforms (see Bedirhanoğlu, 2007) by ignoring the historic conjuncture characterized by capital flows and debt sustainability concerns. The banks, transferred to SDIF, had become insolvent not just because of using public offices for private gains as the popular definition suggested. The duty losses of public banks can be related to the credits given to State Economic Enterprises (bad debts) as much as the infringements whereas the private ones became insolvent mainly from the short positions as a factor of exchange rate volatility and huge capital outflow, emerging in the aftermath of the Close Watch Agreement signed with International Monetary Fund (IMF) at that time. The “corrupt” state was only an expression, and should be understood by analysing the deregulation policies of the last thirty years. Financialization in global economy, the liberalization of capital account in Turkey in 1989, financing public deficit by mainly domestic debt in the 1990s, the creation of debt pyramid and the structure of banking sector in Turkey all gave their colour to the process.

The argument in this paper concurs with the critical work on public finance and debt management in Turkish literature, especially reinforced by the reports of the group labelled Independent Social Scientists (Bağmsız Sosyal Bilimciler, hereafter BSB). But, it does not share the implication that, what made the debt service sustainment primary objective of public finance policy could be avoided through the implementation of a development strategy which should be relatively egalitarian and solidarist in social aspects (see BSB, 2006: 81; 2008: 330, cf. Tanyılmaz, 2006). This developmentalist nation-state based perspective also shared in the studies of public finance (see for example, Derdiyok, 2001; Kesik, 2003) ignores the fact that one cannot talk about “productive” capital in contradistinction to the speculative finance capital, given the huge incomes of industrial firms in Turkey, derived from non-productive activities. Instead of a developmentalist perspective, the paper

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1 The medieval Ottoman ideological element of “circle of justice” suggested that the rule of God could only be sustained by a powerful Sultan, supported by a strong army, which had its share from the wealth produced by people that could produce and survive only under the rule of a powerful Sultan.

2 By government debt instruments, the government bonds and treasury bills are mentioned. These can be issued in both Turkish Lira and foreign currency according to the regulations of Undersecretariat of Treasury.

3 The change in the Law of Public Finance and Debt Management (legal code 4749) had also enabled the municipalities to borrow, with no Treasury guarantee, from money markets. It will certainly lead to increase in the level of indebtedness of the municipalities, which are already having debt service problems (“TMSF’nin Hazine’ye Borcu Siliniyor”, Radikal, 7. 18. 2008

4 For a detailed documentation of the infractions in banking sector and the transfer of banks to SDIF, see Ergüneş (2008).
argues that, the growing dominance of short-term, speculative behaviour in relation with the transformation of global economy in the last thirty years destroyed the possibility of implementing such strategy.

In this bank-based system of Turkish economy, the financialization process by the help of the particular political choices of neoliberal governments should be understood in tandem with the roles played by government debt instruments (GDI) within this process. The organization of everyday life according to the financial calculations (another dimension of financialization) is (being) made possible by permanent passing on the costs of restructuring of capital, from export orientation in the 1980s to financing household consumption, organizing insurance and pension schemes alongside direct investment in foreign countries in the 2000s. In a package composed of neoliberal taxation policy and public expenditure reductions, the real interest rate of GDI in these decades served for the realization of huge incomes for those capital groups, either owning a bank or receiving a preferential treatment from public banks. Banking sector, not only performed its role of collecting idle money to transform it into loanable capital, but also sought money in international money markets to lend governments in return of high interest rates. The short positions of banks in the face of speculative outflows and exchange rate depreciation led to a huge crisis, but only to deepen the IMF policies and initiate legal reforms that regulate the investment into health (to replace traditional social security by insurance and pension funds) and education by capital, rather than putting an abrupt end to this transfer mechanism.

To narrate this story in a few pages, the paper focuses on the role of public debt, especially the domestic debt in the post-1980 period and the process of financialization. The concept of financialization is dealt with, in the second section, to underline the ambiguities of the term and importance of state intervention throughout the process, in countries such as Turkey. The third section touches upon the financialization through public debt in Turkey in the 1980s and then presents figures for illuminating the role of public debt in the post-financial liberalization era. Concluding section puts forward some thoughts for further discussion, on the state restructuring and the use of shocks in neoliberal deepening, summarizes the main concern and reiterates the argument.

II. On the Concept of Financialization

Condemnation of “developing countries” like Turkey to debt and financial expansion is a permanent feature of post Bretton Woods (BW) era. The financial innovations and the creation of new credits in the last three decades were mainly emphasized in discussions for portrayal of developments in international monetary system. Below these surface phenomena, lied the debt-driven expansion of finance. In other words, the dependence on short-term capital flows for financing public debt together

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5 Post Bretton Woods period can be divided into some subperiods with reference to the policy proposals regarding the prevailing discussions. The 1970s until the debt crisis was due to the recycling of petrodollars and speculative capital. The 1980s and the 1990s can be characterized as the deepening of neoliberalism and Washington Consensus with an increasing role for the so-called institutional investors, whereas the financial crisis of the late 1990s and the post or augmented Washington Consensus included attempts to raise objections to the financial liberalization on the one hand and search for the possibility of new international financial architecture on the other. Dividing into subperiods, however, loses its meaning, when the continuity within the post BW era or between the claimed subperiods is taken into consideration. The shrinking trade surpluses of the United States (U.S.) left its place to deficit and since the collapse of BW, the current monetary system relies on the capital inflows to U.S. in exchange of buying the commodities that the debtor countries must sell for earning dollars, as D’arista (2005) discusses. To service debt, the indebted country has to sell more, while the deficit of the country that issues the money used in international transactions continues to grow. The neoliberal reforms and monetary discipline are promoted for providing stability and growing of exports, whereas the liberated capital account promoted by financial centres and International Financial Institutions (IFIs) condemn the developing country to set higher interest rates for capital inflows, which in turn, vaccines a high dose of instability to the vessels of the country as the costs are reflected to the working class and underdog. “The contradiction of transnational debt” (Soederberg, 2005) remained the same in the post-financial liberalization era and is still with us.
with the constant search for quick profits in a debt-laden environment and the commodification of past
debt for new credit (Nesvetailova, 2005) lied behind the financial innovations.

The dominance of finance is labelled with different terms from “coupon-pool capitalism” (Froud et.
al., 2000) and “debt-driven accumulation” (Nesvetailova, 2005) to “finance-led accumulation regime”
(Boyer, 2000). The transformation within the developed countries, the neoliberal policies implemented
and the changing investment patterns of firms were interpreted as the offshoot of financial activity,
gaining the upperhand, by some economists (see Dumenil and Levy, 2005). Financialization was the
name preferred, by many, to signify the “globalization of financial markets, shareholder value
revolution and the rise of incomes from financial investment” (Stockhammer, 2004: 720).

The ambiguity and multi-accentuality of the term is still a problem which leads, for example Epstein,
to a general definition: “financialization means the increasing role of financial motives, financial
markets, financial actors and financial institutions in the operation of the domestic and international
economies” (2005: 3). The ascendancy of financial market and incomes and the relation between non-
financial corporations (NFC) and financial markets (Krippner, 2005; Orhangazi, 2008), the impact of
shareholder value (Froud et al, 2000, Crotty, 2003) are also mentioned more specifically in the
literature. The debate revolving around the financialization aims to kill a few birds (explaining
changes in corporate governance, the increasing importance of finance in overall economy, the
increase in financial activity of NFCs, i.e., the tendency to generate profit from financial activity rather
than trade and production of commodities) with a single stone (overarching concept of
financialization). This ambitious and growing literature, however, should be approached to, with three
caveats.

Firstly, to avoid any misconception regarding the use of the term “financial profit” the classical
Marxist analysis of the process in which M becomes M’ should be kept in mind, since the increase in
the shareholder value of a non-financial corporation depends on an expectation to make profit, i.e., a
commitment to future surplus value to be expropriated in the sphere of production. Secondly, the role
of the state in the alleged financialization of the economy, which is relatively neglected while focusing
upon firm behaviour in the literature, should be investigated critically in order to elucidate the
transformation of the economy. Finally, the increase in the financial activity of NFCs that the
financialization literature emphasized with reference to Anglo-saxon countries and Europe, cannot be
taken as limited to the parts of the world with developed capital markets, but can be observed in the
developing world too.

Conceptualizing the commodification of various aspects of everyday life is another way of grasping
financialization. Gloukoviezoff (2006) prefers to employ the term in the context of financial exclusion
and claims that narrowly defined financialization indicates the transformation of the economies and
falls far away from expressing the financialization of the social relationships, which can be seen as the
constraining of social bonds to the financial services. The welfare state and BW period, from such a
point of view is taken as a step toward such expression of relations in monetary forms and their
organization according to the credit mechanisms. The expansion of the concept to the organization of
social relationships aims to illuminate another dimension of financialization and as mentioned above,
the limited use of financialization with reference to the growing dominance of finance in the structure
of overall economy is not immune from problems. But for the sake of analytical concerns, the
expansion of the concept to the organization of social relationships is not preferred in this paper.

The paper suggests focusing upon the public debt and its relation with the process of financialization
to understand the fortification of contradictions in the current international monetary system and the
puzzles in front of sovereign states and picks up the Turkish case. The financing of public debt and
state intervention can explain not only the specific form and mechanisms of the financialization of the
economy but also the way that the costs of restructuring of the capital are socialized. The
transformation of the international monetary system and the growing indebtedness of debtor countries,
if critically investigated, will provide clues for the changing role of state in the process of
financialization. As written succinctly by Nesvetailova (2005: 407):
The global financial system is ridden with conflict because wealth owners (and claim holders) are private agents, whereas debtors in most cases are public institutions, or they become public ones when private debtors default. Finance employs its own institutions to obtain protection against these risks, transferring the consequences to others and socializing its losses. Doing so, it deepens and creates new crises, and thus jeopardizes growth and employment. In this debt-governed process of financial expansion, the role of the state as a public debtor vis-à-vis private financial wealth owners is indispensable. Governments are made to pass on the costs of debt-driven expansions to their citizens. This is one of the main reasons why private debt has increased so remarkably in nearly all countries during the last 20 years. Where neither private debtors nor nation-states are in a position to service private debt, international institutions provide new credits on condition that the country in question adopts a policy package of structural adjustment (Altvater, 2002).

Developing countries have to finance their debt and the financial liberalization is offered by International Financial Institutions (IFI) as the way. In sharp contrast to the expectation of leading to higher growth rates and stability, the liberalization resulted in the severest crises in Turkish economy. GDI, which guaranteed spectacular returns, served as an investment vehicle for industrial-commercial conglomerates of Turkey. These debt instruments, as the reflection of the debt management policy of government paved the ground for restructuring of capital. Increasing dominance of financial activity in that sense was possible only after the relative expansion of shallow Turkish financial market. It is therefore vital to understand the role of public debt, which can serve for socializing the losses or passing on the costs of restructuring of capital. It also puts forward the problem of agency. Such a problem needs much more space to be discussed. Within the context of this paper, it is sufficient to mention that taking the IFIs or the financial sector as the designers of the conduits for financialization of the national economy will be subordinating the role played by the state as the condensation of class forces. Rather, it should be investigated by taking into account the gains and losses of particular sectors and related to the struggle within and between social classes.

III. Financialization through Public Debt in Turkey in the post-1980 Period

The growth of Turkish economy in the 1980s was maintained by steady current account deficits. Main objectives of reforms overlapped with the standard stabilization packages of IMF; however the fact that the adoption of the reforms had some specificity should be admitted. The qualitative nature of conditionality of World Bank in contrast to the strict quantitative measures of IMF had enabled flexibility in the implementation of the programme (Oniş and Kirkpatrick, 1998). The importance of the public investment in infrastructure for sustainment of high growth rates relative to other debtor countries in Turkey in the 1980s had negative effects to macroeconomic targets. “Because of the rise in public sector investment, the cut in government consumption did not,… translate into lower public deficits” (Winjbergen et. al., 1992: 152). There had been a steady depreciation of currency in the 1980s which served alongside the incentives as a promoter of exports (Baysan and Blitzer, 1990). Nonetheless, the depreciation of the currency increased the real external debt burden, and sustainment of the positive interest rates necessary to “reconcile persistent fiscal deficits with external balance targets” (Winjbergen et. al., 1992: 152) undermined the incentive for investment into export-oriented production. The output growth did not rest on the creation of new capacity in the 1980s but the use of the former excess capacity (Baysan and Blitzer, 1990; Ercan 2002; Boratav, 2003). “It was … specificity of Turkey’s adjustment experience that it has achieved its ‘success’ while maintaining

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6 The growth of output in Turkey at that time period was corresponded by growth of debt and raising future concerns from the benches of World Bank for the continuity of primary current account surpluses. As it was stated, the pattern of Turkish debt-output ratio was similar to highly indebted countries not because of the slower output growth but of the increase of debt (Winjbergen et. al. 1992: 57). This had immediate relation with the real depreciation of the currency and the inability to reduce the expenditure. However, in order not to fall in the pitfall of methodological nationalism, the inability to reduce debt can be seen as the part and parcel of “debt with growth” strategy. This is to say that the public sector investment in infrastructure was portrayed as complementary to private investment (Winjbergen et. al., 1992: 153).
steady, though significant, trade and current account deficits until the late 1980s” (Yalman, 1997: 206).

Related with the high interest rates and costly instruments to achieve competitiveness, the productivity increase was still needed at the end of 1980s. Hence ten years of structural adjustment did not solve the problems of integration into world economy, but rather resulted in the reproduction of the problems under new forms. This new form was named as the problem of sustaining the transfer of resources to abroad and sustainment of creditworthiness by World Bank studies (see WB, 1990 and Winjbergen et. al., 1992). It was stated by World Bank, to overcome the problem of transfer of surplus generated in economy and thus, minimize the debt service, Turkey should “[run] current account surpluses that are large enough to allow for a net reduction in the stock of debt; or … [manage] to refinance its existing debt with new borrowings that have longer maturities and grace periods than the existing debt stock” (1990: 35-36). This imposition by the Bank in fact, did not have a solid ground, as Turkish growth with debt strategy showed either depleted quality or the impossibility of mentioned debt management techniques. For example, it was admitted that although Turkey runs primary surpluses since 1984, it was not possible to overcome deficits in overall account because of the large interest payments on external debt (WB, 1990: 25, cf. Kuruç, 1985:19-20). It was impossible for Turkey on the other hand to borrow with longer maturities due to the fact that the credibility of the country was in question in contrast to the discourse of the government and overall high interest rates tended to shorten the time of debt return.

Turkish governments opted-in domestic borrowing to minimize external debt service. This would have important consequences after the liberalization of capital account in 1989. As Ertürk (2003) suggests, neoliberal policies of the 1980s in Turkey deregulated the capital markets and paved the way for a “coupon pool capitalism” (Froud et al, 2000) dominated by GDI. The government bonds played a key role in the financialization of the economy and crowded-out the productive activities. The political choice of financing debt through GDI was made possible by the foundation of Undersecretariat of Treasury in 1983, which separated the management of debt from budget planning in institutional terms. After the end of OECD debt relief in 1984, domestic borrowing started to increase, but it was not in the forefront before the 1990s. Capital account liberalization in 1989, in our concern, later served as the facilitator of borrowing from international money market to lend Turkish governments in return of higher incomes. The taxation policy was reformulated to adapt to the conditions of debt cycle. Rather than direct taxation of capital, the governments, committed to structural adjustment and under the service of IMF, promoted indirect taxation. The surveillance of IMF and the primary budget surplus targets in the late 1990s in official documents and letters of intention confirmed that the sustainability of debt was a major concern (BSB, 2006).

To understand the dominance of financial activity and the escape from production sphere in the industrial sector, we can have a close look to the incomes through non-productive activities, in particular, the non-operating incomes of biggest 500 private industrial firms that have an important share in GDP. Table 1 indicates the non-operating income figures for the biggest 500 industrial firms and their ratio to total income within that term. Dramatic increases in the crisis years left aside, these show that the ratio revolved around 50 % in the first half of the 1990s and decreased considerably in post-crisis period. In nominal terms, however, the increase was constant until 2004 and came mainly from interest income. Karahanoğulları (2003), gives a similar figure, maintaining that more than half of the profits of these firms came through financial activities in the 1990s. The Chairman of the Board of Istanbul Chamber of Industry, Küçük (2008) suggests that the former incomes through non-productive activities mainly composed of interest incomes (from GDI) and the recent improvements in the financial structure of industrial firms should not be related to improvements in production sphere. It should be seen as the “side effect”7 of unrealistic exchange rate policy and “utilizing foreign financing sources” (borrowing abroad) and hence as a temporary illusion.

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7 The Turkish word “yan etki” (side effect) is changed as “result” in the english translation of the speech of chairman.
We should consider the role played by banks in the Ponzi scheme of Turkey (see Akyüz and Boratav, 2003), and the organic relations between banks which lend government and the private industrial firms to take one step further in illuminating the process of financialization through state intervention.

Table 2 puts forward that the domestic borrowing of government was mainly financed by public and private banks in Turkey. Considering the high real interest rate of GDI in the 1990s as seen in Table 3, and the conglomerate structure of private firms in Turkey, it is not hard to estimate the effects on investment expenditures. The capital account liberalization had a crowding-out effect rather than promoting private industrial investment. It also provides clues for grasping the bank rush in the 1980s and 1990s (see Ergüneş, 2008, cf. Bulutoğlu, 2004). Banks financed the public deficit in return of high.
interest rates and it was of utmost importance for capital groups to receive their share from this transfer mechanism.

Those groups who included either private banks in their conglomerates or received preferential treatment from public banks had a great advantage against their competitors. The commercial industrial conglomerates was the historical product of Turkish economic development in the import substitution industrialization. Many industrialists in the new era of financial liberalization blamed governments because of the debt policy and the creation of short-term opportunities for those bank owner capital groups. This tension between different capital groups was not a contradiction as such and could not become an element of a strong dissident discourse on the part of some capital groups, since many other industrialists derived huge part of their incomes from financial investment.

Graph 1: Ratio of domestic interest payments to total tax revenue
Source: Iyidiker and Özuğurlu, 2003: 478

The graph above shows that most of the tax revenue was allocated to interest payments in the 1990s. It would also mean that the share of education, and health expenditures were limited in the budgets of this decade. This, however did not bring about a decline in the total debt stock, whose ratio to GDP continued to increase until 2002 according to Treasury statistics.

Overall speaking, the role of public debt can be seen as the construction of a GDI dominated financial market. The surface contradiction underlined by this rough picture we get through the figures of public debt and the declarations of the Association of Turkish Industrialists and Businessmen (TÜSİAD) is that the industrial capital in line with the warning of IFIs on debt service ratio and the budget deficits in the late 1980s and the early 1990s, portrayed the problem as one of lack of fiscal discipline but did not hesitate taking part in this transfer. Capital groups (commercial-industrial conglomerates) jumped on the bandwagon, with their own banks, lent governments and received huge incomes through spectacular real interest rates of GDI. Crotty (2003) describes the contradiction between the demands of financial market and the conditions of production market and labels it as “neoliberal paradox”. The neoliberal paradox in Turkish case was related to the injection of ever-growing doses of fragility to the banking system and debt sustainability of Turkey through this Ponzi scheme, and crowding out effect, while pointing out the necessity of public expenditure reduction as the only way to exit debt spiral, although Turkey gave primary budget surpluses except 1991-1993 and the deficits in those three years were relatively low.

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8 For an alternative periodization of capital accumulation and a summary of the tensions between capital groups in this particular period see Gültekin-Karakaş, 2007.
The relations between the Treasury as the borrower and the banks as the lenders in the 1980s and 1990s signified not only transfer of resources to banking sector (Ergüneş, 2008) but also meant the growing power of finance and can be related to the introduction of a pattern in which the capital inflows boost the economy for a limited period of time to be followed by outflows and crisis (see Boratav, 2003). The discipline of finance and money capital on the organization of the everyday life of individual is accompanied by the soaring public debt and the burden of interest payments on the budget. The government intervention was for channelling the savings to financing deficits and the high interest rates that the government had to offer were more attractive than risky productive investment (Aybar and Lapavitsas, 2001). Ironically, much praised form of state intervention of the early and mid-1980s (see Öniş, 1998, for World Bank evaluation), in line with the recommendations of experts of BW institutions, did not lead Turkey to regain her “pre-shock growth path” (Balassa, 1982). Instead, Turkey had to allocate, for the following two decades, most of her revenue for debt service sustainability, which could be read as, not only a result of but also, an impetus for financialization. The lost decade of Turkey, then from another point of view, may not be lost for banks lending to governments that had to set high interest rates, enough to attract loans. In addition, the growing instability in Turkish economy was later used by IMF and influential associations of capital such as TÜSİAD to justify privatizations of State Economic Enterprises and reregulation of banking sector together with reforms concerning social security.

IV. For Conclusion

The restructuring of the Turkish State can be read as an attempt for socialization of the costs of restructuring of capital on the one hand and the mediation between the global overaccumulation and the provision of conditions for the reproduction of the social relations of production on the national terrain on the other. In more concrete terms, the restructuring of the state in the post-1980 period was an attempt to overcome the Turkish crisis through a change in the form of intervention into the economy and a change in the form of integration into world economy. It was doomed to fail, however, as long as the crisis of global capitalism continued and since the state cannot solve the contradictions of capitalism as it exists in and through these same contradictions. The financialization of the global economy had an impact upon the form of nation-states’ intervention into economy whereas, as can be noticed in Turkey, the construction of a financial market and the prevalence of financial motivations should be discussed as tightly connected to the restructuring of the state itself and initiation of reforms after the crises.

This idea brings us to the use of crisis to push through the neoliberal policies for deepening of financial domination. Klein (2007) suggested the concept of “shock doctrine” to express how the wars, natural disasters, financial crisis were being used for submitting public control over various aspects of everyday life to the unfettered market forces. It seems proper to argue that the Turkish experience with neoliberalism, in a similar vein to the story of many other countries, provided a testcase of neoliberalism, introduced effectively after coup d’état and deepened by the financial crises. I suggest therefore, converting the liberal, eu(ro)phoric “anchor” discourse that is prevalent in Turkey; to a critical one which moves on an examination of the use of financial crises, disasters and war for pushing through neoliberal reforms. Put differently, not the legal and political reforms (any attempt to regulate capitalist economy is doomed to fail because of the antagonistic nature of capital relation), but the crises themselves should be seen as the anchor of neoliberal deepening and financialization in our concern.

Taken together with the restructuring of the state, the financialization in Turkey was pushed forward by persistent “attempt[s] to place at one remove the political character of decision making” (Burnham, 1999: 44) with regards to debt service and budget priorities. The separation of budget planning from debt management and the insistent discourse, articulated from such ideological elements such as market freedom, effectiveness and international liabilities can be seen as the facets of depoliticization. Contrary to classical liberal wisdom which might detect a participatory and democratic force in financing the public debt via the contributions of all the citizens of country, the public debt and policies of finance serve as a mechanism of income transfer. The financialization
process provides no exceptional development but rather subtle mechanisms of financial innovation for capital groups to derive incomes from financial investment and present accumulation of public and private debt as investment vehicles.

The restructuring of the state, or the changing form of state intervention to economy from another point of view, can be seen as an attempt to mediate the contradictions emanating from capital accumulation. Since contradiction itself is “an expression of the social form of those relations” (Burnham, 1995: 109), the very concern of state as an organization is not and cannot be provision of a decent life to its citizens, via a developmentalist strategy, in the age of neoliberal financialization. An important dimension of financialization, financialization through state intervention can be noticed vigorously in debt management policy. The debt service problems of developing countries are not the end result of corrupt politicians or states. It should be addressed in relation to the international monetary system and the contradictions of global capitalist accumulation.

In Turkey, high real interest rates of GDI urged banks of the large commercial-industrial conglomerates to hold short positions with expectation of higher incomes. Without any strong popular resistance to budget or debt management policy, the governments continued to issue new bonds. The financial crises did not change the pattern, but were used for injection of further neoliberalism. Gültekin-Karakas (2007: 307) suggests that the crisis was also used for elimination of the weak capital groups alongside the concealment of contradictions. The reform of banking sector in that sense was a reflection of struggles between those groups as well. This struggle, however could not be read along the lines of a division between industrial capital versus financial capital. Those capital groups which survived the financial storm were stronger enough to undertake imposing further financial discipline through commodification upon the organization of everyday life as the disarray of the masses paved the road.

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