SOCIO-ECONOMIC TRANSFORMATION OF FINANCIAL CAPITAL IN TURKEY AFTER 1980'S

A THESIS SUBMITTED TO
THE GRADUATE SCHOOL OF SOCIAL SCIENCES
OF
THE MIDDLE EAST TECHNICAL UNIVERSITY

BY

ALİ ÖZGÜR TACER

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR
THE DEGREE OF MASTER OF SCIENCE
IN
THE DEPARTMENT OF SOCIOLOGY

OCTOBER 2004

Approval of the Graduate School of Social Sciences

Prof. Dr. Sencer Ayata
Director

I certify that this thesis satisfies all the requirements as a thesis for the degree of Doctor of Philosophy

Doç. Dr. Sibel Kalaycıoğlu
Vice Head of Department

This is to certify that we have read this thesis and that in our opinion it is fully adequate, in scope and quality, as a thesis for the degree of Doctor of Philosophy

Öğr. Gör. Dr. Mustafa Şen
Supervisor

Examining Committee Members

Prof. Dr. Bahattin Akşit

Doç. Dr. Ahmet Haşim Köse

Öğr. Gör. Dr.Mustafa Şen

I hereby declare that all information in this document has been obtained and presented in accordance with academic rules and ethical conduct. I also declare that, as required by these rules and conduct, I have fully cited and referenced all material and results that are not original to this work

Date: Signature:

ABSTRACT

SOCIO-ECONOMIC TRANSFORMATION OF FINANCIAL CAPITAL IN TURKEY AFTER 1980'S

Tacer, Ali Özgür
M.S., Department of Sociology
Supervisor: Dr. Mustafa ŞEN

October 2004, 119 PAGES

The study of money and banking is largely considered the purview of economics. Nevertheless, money theme cannot be neglected by social analysis for money is a social construct, embedded in social interactions. Financial system, money's highest level of institutionalization, also cannot be abstracted from social and political sub-structure. In this thesis we tried to look at the way in which Turkish financial transformation in early 1980's has found its reflections on social sphere; in terms of changing social relations and institutions. We first presented a short history of Turkish financial system, then we focused on the essential features of 1980 Transformation, covering its political background. The emphasis is made on power relations between bureaucracy, political will and financial market participants. We also combined the main features of mainstream theoretical approaches to money and finance from the fields of sociology and we put current debates on Turkish financial liberalization into the context of sociology. As we considered the ways financial relations shape societal developments and political processes, we tried to identify how debt-money system had permeated further in the social relations through financialization of society.

Keywords: Arrighi, banking, bureaucracy, capital, conglomerates, corruption, financialization, money, Marx, Simmel.

ÖZ

TÜRK FİNANS SERMAYESİNİN 1980 SONRASI SOSYO-EKONOMİK DÖNÜŞÜMÜ

Tacer, Ali Özgür

Yüksek Lisans, Sosyoloji Bölümü

Tez Yöneticisi: Dr. Mustafa ŞEN

Ekim 2004, 119 SAYFA

Para ve bankacılık üzerinde çalışmak çoğunlukla iktisat biliminin kavrama alanı içinde görünür. Buna karşın paranın sosyal bir kurgu olduğundan hareketle ve toplumsal ilişkilere içkin olduğu düşünülürse para teması toplumsal analizin dışında tutulamaz. Paranın en yüksek kurumsallaşma düzeyi olan finans sistemi de sosyal ve siyasi arka plandan bağımsız addedilmemelidir. Bu tezde, 1980'lerin başında Türkiye'nin geçirdiği finansal dönüşümün, farklılaşan sosyal ilişkiler ve kurumlar bazında toplumsal alandaki yansımaları ele alınmıştır. Öncelikle Türk finans tarihini kısaca tanıtılmış ve 1980 dönüşümünün temel unsurlarına siyasi arka planını da kapsamak suretiyle odaklanılmıştır. Siyasi irade, bürokrasi ve finans piyasası katılımcıları arasındaki güç dengeleri üzerine vurgu yapılmıştır. Para ve finans üzerine sosyoloji alanında geliştirilmiş kuramlar ana hatlarıyla bir araya getirilerek Türk finansal serbestleşmesine dair tartışmalar sosyoloji bağlamına dahil edilmiştir. Finansal ilişkilerin toplumsal gelişmelere ve siyasi süreçlere olan etkisi dikkate alınarak, toplumun finansallaşması çerçevesinde borç tabanlı para sisteminin sosyal ilişkilere hangi biçimlerde nüfuz ettiği tanımlanmaya çalışılmıştır.

Anahtar kelimeler: Arrighi, bankacılık, bürokrasi, sermaye, holdingler, yolsuzluk, finansallaşma, para, Marx, Simmel.

To my beloved parents

ACKNOWLEDGMENTS

I express my appreciation to Dr. *Mustafa Şen* for his encouragement and support in my studies. I am grateful to Dr. *Ahmet Haşim Köse* for invaluable contribution and insights throughout the thesis. Thanks to *Ahmet Murat Aytaç* for his constructive criticism, suggestions and comments on my work. To *Aysun Özen*, I offer sincere thanks for her efforts in helping me during grammatical corrections of the text. I owe thanks to all my colleagues and seniors in *T.C. Ziraat Bankası Personnel Department* for their patience, understanding and for providing flexibility in my times of need. Finally, I express my sincere very appreciation to my parents for their love and support.

TABLE OF CONTENTS

CHAPTER 1

INTRODUCTION

Developments in Turkish economy for the last decades have been remembered with consecutive macroeconomic crises, liquidation of banks and corruptions in financial sector. Especially developments concerning banking sector are highly debated issues in current field of economic analysis. Although finance is only a part of economic totality, it has been regarded in highest importance by public opinion. Even a superficial observation on popular Turkish media would reveal that economy news is dominated by news concerning developments in financial markets and banking system. This is easily understandable, however, considering that in almost every society, individuals are incorporated to economic life through money market channels. This is how economic variables are embedded in political and social context; one has to look thoroughly in political, bureaucratic and social interrelations within the Turkish financial system to fully grasp the nature of its contemporary problems.

We consider those problems are too pressing to remain within the boundaries of quantitative economic analysis, for economics often disregard the social implications of unequal distribution of power via monetary relations. Sociology, on the other hand, barely assesses financial side of economic relations distinctively. In this study, we followed the sociological doctrines (Arrighi, 1994; Ingham, 1996; Simmel, 1900; 1905[1950]; 1907[1990]; Weber, 1958; 1964) that develop a significant body of research on money, insisting that money is a social relation, and consequently, a social institution. Through the mental window of sociology of money, we tried to interpret the history of Turkish financial liberalization from a critical perspective.

There are extensively engaging works on Turkish political economy covering post-liberalization era of Turkish economy (Alper and Öniş, 2001; 2002; 2004;

Boratav, 2003; Boratav and Yeldan, 2001; Boratav, Yeldan and Köse, 2002; Çavdar, 2003; Ertuğrul and Selçuk, 2001; Kepenek and Yenitürk, 2003; Kılıçbay, 1992) that provide valuable analyses encompassing all dimensions of Turkish economic transition to the new paradigm. However, they deal with real economy and financial economy as nested together. Our investigation omits the real sector and focus thoroughly on financial side of economy. The focus on financial sector is justified by the fact that it provides an interesting case for studying how the process of financial liberalization indicates some fundamental changes in the social sphere in a semi-industrial and semi-peripheral country setting. There are several topics to be undertaken in this context, but first of all, boundaries of the financial system should be drawn for convenience of the analysis.

A financial system comprises a whole range of institutions, businesses, individuals and governments involving the circulation of money in the economy. People and organizations wanting to make money exchange, i.e. borrowing and lending, are brought together in financial markets. Financial markets are differentiated by the nature of the transaction and pertaining type of instrument. Most commonly referred financial markets are money markets, in which funds are borrowed or loaned for less than one year, and capital markets, for stocks and long-term debt for more than one year[1]. In financial markets, there are specialized firms that facilitate the transfer of funds from savers to demanders; those are called financial intermediaries. They include commercial banks, insurance companies, pension funds and specifically for Turkey, special financial institutions[2]. Although the financial system has an insignificant weight in Turkey's gross national product (around 2-4% of GNP), it stands on the most critical position in allocating resources within domestic economy; and the financial system in Turkey in general, is dominated by banks.

---

[1] Other classifications also could be made but this breakdown is sufficient for our non-technical study. See Eugene Brigham, 1995, Fundamentals of Financial Management and Kidwell-Peterson and Blackwell, 1991, Financial Institutions and Markets for detailed information on categories of financial economy.

[2] Special Financial Institutions operate through profit-sharing instead of interest-bearing assets and distribute dividends to their depositors. Total assets of SFI's are 3,3 quadrillion TL and their share in financial sector is 1,6% (TBB Bilgilendirme Toplantısı, Dec.12,2003, Presentations).

Whilst a well-functioning banking system is vital for increasing the expansion of capitalism and for sustaining the complex transactions that occur in a sophisticated capitalist economy, it is also a source of vulnerability. First of all, banks may be vulnerable to panic withdrawals or changes in sentiment amongst those on whom they depend for deposits and to changes in market conditions that turn some of their loans bad. Secondly, in an environment of weak regulation and supervision, bank resources are very susceptible to abuse and malpractice. Turkey has experienced more than once the validity of the risk of moral hazard inherent in the liberalized financial structure (Akgüç, 1989; Kelkitlioğlu, 2001; Kumcu, 2000; Öniş, 2004; Tartan, 2003).

All problems related to fragility of Turkish banking sector is closely related to paradigm shift towards a neo-liberal economy. Implementation of neo-liberalism in Turkey may be investigated in terms of two separate time periods: 1980-1989 period and the post-1989 era. The initial phase, corresponding to 1980-1989, can be subdivided into 1980-1983 sub-period that is characterized by military regime, but what we consider a breaking point in the course of Turkish economy is the 24th of January 1980. "January 24 Decisions" introduced radical changes in economic modeling and preferences. With those decisions Turkey switched its economic policy from "import substituting industrialization" to "export-led growth strategy" which means the introduction of liberalization in financial markets and more emphasize on foreign trade. In this context, import regime was liberalized to a great extent, export-promoting incentives were generated, supply and demand system in foreign exchange markets was put into practice and thus, Turkey's integration with western capitalism is intensified (Kılıçbay, 1992, Yenitürk, 2003).

24th of January denotes a transition not only in sphere of economics but in the sphere of culture as well. Speedy implementation of market-oriented reforms had profound effects in Turkish social structure. First of all, a sudden availability of imported goods created an illusionary sense of well being, and new financial instruments a mirage of wealth. Positive interest rates (i.e. an interest income that exceeds the rate of inflation) caused a rush to interest-bearing assets. The resulting frustration and facing with true risks of unregulated markets are discussed broadly in this assignment. But most important impact of liberalization process as we considered is the corrosion of character that it caused, not only by means of corruption and fraud within legal framework but impersonalization of human relations via extensive monetization of daily life. We identified the situation as "financialization" of society and we attempted to provide a well-documented identification for the very notion.

The second phase of Turkish liberalization deserves particular attention for high degree of political instability it pertains and the absence of an adequate institutional framework to regulate the financial sector rendered the Turkish economy highly dependent on short-term and highly speculative capital flows. During the 1990's economic crises began to affect Turkish economy with increasing frequency. Lack of breadth and depth of financial sector stands as one of the main reasons for those incidents, but the important part of the analysis is again the non-market causes and implications of successive crises. Here the emphasis is made on the regulative structure within the economy, especially the network within the intersection of economic bureaucracy, political will and financial institutions. Backing with the resourceful theoretical basis provided by Marx, Arrighi and Wallerstein, we drew a distinction line between market-driven systemic fluctuations of capitalism and populist cycles that became a characteristic of Turkish economy. Theoretically, it is argued that upward swings (economic expansion) and downward swings (economic contraction) systemically follow each other with increasing frequency over time; this is partly due to monetization of economy and overall degree of world-markets integration. Downward swings are characterized by a critical level of stagnation and profit losses. Consequently, capital owners shift their primary locus of seeking profit from the productive sphere to the financial sphere.

Another crucial effect of post-1989 liberalization was on the consumption side: New monetary instruments that have been introduced by commercial banks altered the ways of payment, borrowing and lending. Especially credit cards, extensively merchandized by commercial banks after the second half of 1980's, initiated a consumption boost paired by increased variety of consumption goods after trade liberalization. Turkish society fell into the habit of consuming beyond the limits of earnings and suffered from heavy burden of debt, in the dawning age of debt-money system.

Thus, a premature widening and deepening of financial economy, detached from real economic segments, allocates pertaining social risks and benefits unevenly. This is how financial hegemony is established in contemporary capitalism. In this thesis, we discussed the crucial effects of financialization on Turkish society, departing from analyses on financial structures. A special emphasis is made on the positioning of financial bureaucracy between market participants and politics. Then lastly, we outlined the financial capitalist development of Turkey is in a regional comparative basis, drawing attention to deepening social inequality between different regions from financial perspective.

CHAPTER 2

TURKISH BANKING SYSTEM: A HISTORY

2.1 Introduction

Although there had been fundamental transitions in Turkish financial system a lot throughout the last decades, the present economic conditions cannot be conceived without having a retrospective look to its roots. Albeit we observe different economic paradigms in Turkish economic policies of the past, the cumulative effect of occurrences within those paradigms in turn, shapes the present situation.

In this chapter, we tried to avoid a mundane reading of Turkish economic history and we tried to magnify how political economy of Turkish finance took shape in different stages of Turkish modernization. Emergence of national banking vis-à-vis development of national bourgeoisie and implementation of Turkish bourgeois ideology with the help of national banking is in focus.

2.2 Ottoman Legacy

Over 16th century, the epoch of invasions was almost over for the Ottoman Empire. In economic terms, that means revenues from territory occupation were no longer sustainable. Another fruitful resource that was lost was the trade income from Mediterranean trade routes; since the New World had come into the scene of international trade; Mediterranean commerce lost its significance. The last and most critical factor that has deepened Ottoman's relative economic backwardness compared to Western world was the industrial revolution, which emerged in Britain and continental Europe from very beginnings of nineteenth century. Indeed, modernization of production patterns or introduction of new techniques was not adopted by Ottoman producers, for decades local productive agents had insisted on traditional craftsmanship and agricultural production whereas industry and finance led by non-Muslims and domestically operating foreign entrepreneurs (Kepenek and Yenitürk, 2003).

The pre-modern character of the Empire can be attributed to many factors, including militaristic, technological, political, and economic[3]. But in this section we will primarily deal with underlying reasons of Ottoman's backwardness in development of financial markets and banking.

There are structural reasons for underdevelopment of financial markets in Ottoman Empire. First of all, Ottoman Treasury practically never inclined to borrow funds from financiers, always preferring capitalization of its resources (Eldem, 1999:17). Therefore, public borrowing as a policy choice had never become a custom in Ottoman economy administration. On the other hand, tax policies became increasingly oppressive to cover the deficits. Consequently, a proper market structure for governments' financial needs had never institutionalized in desired level. Furthermore, unbearable tax burden on producers and households worsened income distribution even more. Another factor for the financial underdevelopment was reluctance of Ottoman notables and dignitary to engage in money trade. Due to Islamic ban on usury, Ottoman Muslim businessmen left money changing and banking to practitioners of non-Muslim origin called *sarrafs*[4]. Nonetheless, those practices were hardly responsive even to the needs of local merchants. Then coming to the point when all other financial opportunities were exhausted, Ottoman Treasury had no choice but relying on a handful of bankers. The capital market soon became a network between the treasury, a group of privileged sarrafs and bankers who sought

[3] For detailed explanations see (Artun, 1983; Eldem, 1994; Eldem, 1999; Kocabaşoğlu, 2001; Pamuk, 2000; Tekeli&İlkin, 1997)

[4] In fact, this does not mean that no muslim person or organization engaged in money lending. An interpretation of Islamic rule asserts that an excessive amount of interest, called usury, is forbidden in Islam but not interest-bearing lending itself. As a result of this interpretation, small lending institutions like Cash Foundations (nakid vakıfları) were established and various sorts of personal lending mechanisms were operated. Legitimacy of an interest rate more or less equivalent to increases in price levels eased Ottoman commerce in conditions of high inflation. [Eldem, 1999:26-27]

profit from money trade. Domestic economic agents of the Empire were poor in credibility with their modest amount of capital and primitive production techniques. Consequently agriculture, commerce, craftsmanship and local bourgeoisie could not benefit from limited capital resources. With such a limited participation, immature Ottoman capital market became susceptible to speculative attacks and easily got manipulated.

Ottoman Government was also deprived of necessary mechanisms and institutions to keep economy and finance in control. Until the middle of nineteenth century, a modern and rational bureaucracy was not present in Ottoman Empire; yet, even the limited relationships with Western World forced Ottoman elites to adopt some administrative features of modern capitalism into functioning of the state. Moreover, rising tides of nationalism throughout the Europe urged the Ottoman state to take precautions against ethnicity-based upheavals with a more centralized supervision. In 1839, Reformation[5] era of Ottoman Empire had started, bringing with a new mentality of law and governance. Reorganization was in line with expansion of Ottoman state apparatus: Education, health, communication, infrastructure and similar services were gradually attached to related public institutions. Establishment of Ministry of Finance in 1837 was the first sign of bureaucratic structuring in economy administration. This step is followed by unification of all Ottoman treasury units in a single Treasury Public in 1840. Starting from the fiscal year of 1841-1842, the first budget estimate had been made (Eldem, 1994:16). But those attempts to regulate fiscal relations of the state had no effect to general financial deficits of the Empire.

Just as the Ottoman public finance was out of control, monetary policy was not different. First of all, there was bimetallic system in Ottoman economy; the gold and silver coins were in use, other than banknotes. The problems were arising each time their relative value changed. Furthermore, due to the scarcity of gold and silver ore, metallurgical composition of the coins was changing all the times; causing speculations over its exchange value. To overcome this problem a monetary reform took place in 1844. The value of coins was transmuted to decimal system allowing

[5] In Turkish: Tanzimat

easy convertibility between gold coins and silver coins[6]. The parity of gold coins to silver coins was anchored in a certain proportion and their metallic components were fixed. Nevertheless, as gold became scarce, its proportion has diminished in golden coins, and then at the end gold component has been totally dismissed from coinage. Besides, circulation of *kaime*[7] increased the relative price of coins further and complicated the exchange operations (Eldem, 1994; 1999). Proficient in manipulating on the relative values of coins of gold and silver, sarrafs became only economic agents who benefit from instability of Ottoman monetary system.

It was where İstanbul, culturally and economically the most developed city of the Empire, that most effectual group of sarrafs, called Galata bankers got together. A banker was basically a money trader, but unlike sarrafs, they had access to European financial centers, providing both capital and credit instruments to customers and investors. Bankers' job was simpler than the banks, but they were responsive for simple needs of capital and money changes. In an economy where financial markets were still immature, like Ottomans, it was usual to have them treated as banks themselves (Eldem, 1999:21). In order to conduct the monetary reform of 1844, the government needed a proper institution to act as a financial intermediary between the government and economic agents. In 1847 the Ottoman Government allowed Galata Bankers to set up the *Bank of Dersaadet* and endowed the bank with management of the external payments of the Ottoman Empire for the first time. At the end of the year 1847, they founded another one, *Banque de Constantinople*, which was not a real bank, rather a currency-regulating agency. Its role was limited to preserve the value of domestic currency *kaime* and maintain the exchange rate equilibrium between domestic and foreign currencies (Eldem, 1994:17)). The bank had lasted only eight years: Due to the 1848 revolution in France, French-Ottoman trade had been interrupted and the bank found it impossible

---

[6] Apart from coinage, banknotes also have been using in Ottoman Empire since 1840, but since they could not transact in exchange of gold or silver, their popularity had never grown up. Gold and silver coins continued to be used in daily transaction whereas taxes and other payments to the government were made in banknotes. Then nearly all banknotes issued by treasury were returning to the government in no time. Banknotes were supplied cheaply by Galata bankers in exchange of gold and silver, causing significant income loss of Treasury.

[7] The first paper money issued in Ottoman Empire by Sultan Abdulmejid in 1841

to fulfill its financial liabilities. In spite of immediate government intervention and support, the bank could not help but collapse.

In Imperial Reform Edicts (1856)[8], establishment of foreign banks was boldly suggested due to the immediate resource need of domestic economy from abroad. First requirement was a foreign bank to be operated in Ottoman territory. In the same year, "Ottoman Bank" was established as a joint venture of French and English capital, after persistent efforts of British Government. The reason for their insistence was the growing amount of money borrowed by Ottoman Empire. In 1863, the Bank partially assumed the functions of a central bank after becoming a state bank under the name of Imperial Ottoman Bank. The birth of the *Imperial Ottoman Bank* was the outcome of a contract dated 4th February 1863. Sultan Abdülaziz, who expected to improve the economy in a state of financial crisis after the Crimean War, ratified the contract immediately, concluded by the shareholders of the Ottoman Bank. When the contract came into effect, the Bank had to assume its responsibilities in the domain of banking. Almost all foreign loans of Ottoman state after 1863 had been arranged by Ottoman Bank (Eldem, 1999:54). The 18th February 1875 marked another turning point in the life of the Bank. A convention signed between the Bank and government gave the Bank the ability to control the budget and the expenditures and incomes of the state, to ensure reforms and control the precarious Ottoman financial situation[9]. The Convention also extended the Bank's right of issue issuing (banknotes) for 20 years and conferred on its role of Treasurer of the Empire. Thus the character of the Ottoman Bank as a state bank was fully reaffirmed. The Convention also ensured that Ottoman Bank was the only institution that has the right to issue banknotes in the Empire. The Government relinquished the right to issue banknote within the period of privilege and to grant permission to other institutions in this regard as well. Equipped with this power, the Bank would act as the Treasurer of the State, collect the State revenues, perform the payments of the Treasury and discount Treasury bills as well. Only The Ottoman Bank would make the interest and principal payments regarding domestic and foreign debts. The Bank was even assigned with the auditing Imperial budget. State revenues were accumulated at Ottoman Bank and all state

[8] In Turkish: Islahat Fermanı

[9] At the same year, Ottoman Treasury announced the first moratorium of its history. All debt repayments, domestic and foreign, were stopped due to extremely critical levels of budget deficit.

expenses; internal or abroad were undertaken by Ottoman Bank[10]. All those rights and privileges of the Bank lasted until 1930, the year when Central bank of Turkey is established.

Ottoman Bank was efficiently working around Istanbul and its west but it was not so effective around the eastern parts of the nation. The Anatolian folk, mostly living on agriculture, could not benefit from credit facilities of Ottoman Bank at all. Mithat Paşa, the governor of an Anatolian city, was well aware of that problem. So he brought about a new project to the government. The idea was an early breakthrough in the development of Ottoman banking system: the establishment of small credit institutions, called *Country Vaults*[11]. They were oriented to provide resources to agricultural sector for a moderate cost. The first Country Vault started to operate in 1863, and then subsequent ones followed on its establishment. The cash boxes were a joint venture of agricultural producers. Funds raised in Cash Boxes were used in regional public works and infra-structural investments as well. Since they were raised and invested locally, in that sense, they were early examples of cooperatives. In 1887, total capital of Cash Boxes was amounted to 2 million Ottoman Liras and their number was 250 (Artun, 1983). Nevertheless, due to mismanagement and corruption, Cash Boxes went into a complete failure. Those poorly organized institutions collapsed one after another due to unpaid loans, inadequate auditing, inability to collect resources and bribery. In 1888, Cash Boxes were converted into a centralized state-owned bank, named The Agricultural Bank[12]. Another national finance institution, *Trust Funds*[13] was formed in 1867. This state-owned enterprise aimed to collect deposits then extend loans for household consumption. Trust Funds was the first retail banking experiment of Turkey and it was unique in the sense that it had no capital. All resources of the bank were raised only through deposits. Its assets were essentially consisted of consumption loans and

[10] Ethem Eldem [1999:1] identifies the foundation of the Ottoman Bank as "a typical capitalist success story of the mid-nineteenth century, based on small-scale entrepreneurship and on personal involvement of a few adventurous men". But he also admits that the Bank itself became focus of a complex set of relationships, involving international relations, international finance, politics and bureaucracy. Ottoman Bank was founded in 1856 as a modest project, but in a mere decade it has challenged the economic dominance of an empire.

[11] In Turkish: Memleket Sandıkları

[12] In Turkish: Ziraat Bankası

[13] In Turkish: Emniyet Sandığı

majority of operational income came from bills of exchange operations (Tekeli&İlkin, 1997). In 1907, Trust Funds merged with The Agricultural Bank but did not cease to function.

With Crimean War, Ottomans opened way to European capital influx. Financial capital of Europe invaded Ottoman markets by means of direct capital investments and foreign loans. In the meantime, the first version of Public Debts Administration[14] was established under the guidance and leadership of Ottoman Bank. Imperial Ottoman Bank that act as a state bank and Public Debts Administration were the only executive authorities over Ottoman Economy. Management of the borrowings was a complete failure since foreign loans were used to meet current expenses instead of channeling to productive investments. As a result, foreign loans accumulated further and reached a certain level that Ottoman Government officially announced that the loans were non-repayable. With Public Debts agreement in 1881, a Committee of foreign debtors has founded to manage the debt repayments of the Empire (Tekeli and İlkin, 1997; Eldem, 1994). With Public Debts, the power and authority over Ottoman States income and expenses management passed to a Committee of foreign creditors.

Public Debts took effect during the first decades of twentieth century but in the meantime, a new political group was gaining power over the administration of Ottoman state: *Committee of Union and Progress* (CUP). When they formed a political party and entered to the parliament, they expressed their opposition to Public Debts, which disregard national power and command the domestic economy for their own interests. The party was growing increasingly reactive against the supreme authoritative status of a foreign bank over Turkish Economy. CUP was regarding Ottoman Bank as a "state in state", taking no command from Ottoman state authorities but from some board of management from Paris and London. Outbreak of the First World War enhanced the arguments supporting national sovereign economy and necessity of national bank with national capital. For that reason, Osmanlı İtibar-ı Milli Bankası was established in 1917 with a capital of 4 million TL (Tekeli and İlkin, 1997:34). The nationalist traits of the bank were evident: the shares of the bank were printed in Turkish and could be owned by

[14] In Turkish: Düyun-u Umumiye

Ottoman citizens only. Moreover, staff of the Bank should be Ottoman citizen except the general director who can be employed from abroad for 10 years. The Bank could engage in any commercial and industrial activities and supposed to be re-organized as a central bank in near future, but this could not be realized. The bank merged with Türkiye İş Bankası in 1927.

Tekin Alp, a Turkish journalist and dedicated CUP supporter, was drawing attention to the capability of a national bank to attract the idle and inactive capital straight into the national finance system. For Alp, a national bank would not concern for its own narrow interests but prosperity of a whole Turkish nation, supporting national policies of agriculture, commerce and industry, encouraging cooperation and national corporatism, and hence reconciling the interests of individual and the common[15]. Journal of Turkish Homeland[16] asserted that mind and spirit of all economic actions is a properly operating banking system and unless the system is based on nationalist principles, economic sovereignty of a nation cannot be attained[17]. It is indeed evident that the increasing enthusiasm for national banking was in line with the general nationalist alignment of 2nd Constitutional Monarchy. Embedded with a patriotic romanticism of nationalism, national banking became a symbolic purpose to attain in quest for Ottoman sovereignty. In the absence of an organized financial system, national banks were regarded as bureaucratic units, institution of social services, agents of economic policy making and profit seeking companies exclusively all at the same time.

Indeed, CUP theorists regarded national banking as an ideological matter. Ziya Gökalp, for instance, conceptualized economic institution as a circulation mechanism of human body. In line with this analogy, the regulative agency of economy is conceived as the heart of the body. Then he concludes that Turkish nation has no national heart, since The Ottoman Bank is alien to national sovereignty. For Gökalp, national sovereignty was closely linked to economic

---

[15] Tekin Alp, İtibar-ı Milli Bankası. İktisadiyyet Mecmuası, yıl 1, sayı 40, 19 Kanunu-u Sani 1333, s.1, quoted in Toprak, 1982, p.143

[16] Türk Yurdu Mecmuası

[17] Türklük Şuuru: Milli Banka. Türk Yurdu, Yıl 5. Sayı 7, 24 Teşrin-i Sani 1332, s.111, quoted in Toprak, 1982, p.144

sovereignty and a national central bank was a *si non que non* ingredient of a national economy[18].

Despite all the propaganda in support of national banking, Ottoman economy did not yet achieved financial self-sufficiency. Foreign banks were capable of extending greater amounts of loan for longer terms. National banks' lending capacity was less then their foreign counterparts. Between 1909 and 1921, 7 major foreign banks were established in Ottoman Empire to support and promote the commercial activities of foreign entrepreneurs operating in Ottoman Empire[19].

Towards the end of First World War, two types of organizations were prominent in Turkish national banking:

In the first type, Turkish-Muslim tradesmen and landowners tended to form their own banks to compete with minority banks and bankers. They achieved this by personal efforts rather than joint partnerships. Most of such kind of entrepreneurs were either active participants of or sympathetic for Union and Progress. These were elite Turkish bourgeois figures that already possess some political power in state echelons.

The second type of organization consisted of ethnic minority groups of the Empire. Those groups were controlling Ottoman finance and a large portion of commerce. They were not in immediate need of assembling higher institutions of finance, like banking corporations, since they already had the economic power for themselves.

As a reaction to the liberal climate of Second Constitutional Monarchy, Turkish producers inclined to get associated in small-scale companies. Most of those companies essentially engaged in exportation of intermediate goods and importation of final goods. In the meantime, local banks have also started to flourish and became efficient in responding resource needs of small regional producers[20]. Union and

---

[18] For detailed information, see (Kipal&Uyanık, 2001; Tekeli&İlkin, 1997:136-148, Ökçün, 1997:263-378)

[19] See Appendix A for an overview of those banks. One can note that financial activities of foreigners and those of ethnic minorities were concentrated in Istanbul.

[20] Especially in Anatolia where foreign capital is out of reach, local merchants were associating together with modest capital accumulation to establish banks, aiming to solve their finance problems. Anatolian producers were mostly agrarian, thus banks that they formed were mostly specialized in

Progress Party was specifically supporting local banks to compete with foreign and minority banks in Empire, then to revitalize regional commerce. For Union and Progress, it was a matter of relief from economic hegemony of Western capitalism and insidious ethnic minority profit groups. A precise example of this was *Milli Aydın Bankası* (1914). This bank was formed by a group of regional grape producers as the first stage of a regional cooperation project. The founders aimed to incorporate an independent fig exporter's cooperative that is exempt from intervention of Armenian commissionaires. In this direction, same year the bank has merged with "Aydın İncir Müstahsilleri Kooperatifi". Such an organic link between a bank and a cooperative organization proves the presence of a national economic alliance within Turkish producers, against their European and ethnic minority competitors. The founder members' composition of the Bank was also significant: 7 out of 16 members were active Union and Progress members. No need to mention, Milli Aydın Bankası was another instrument of Ottoman economic nationalization project, as most of other local ottoman Banks were; like Osmanlı İtibar-ı Milli Bankası (1917) whose founders were also Union and Progress members (Ökçün, 1997).

Apart from prosperity and welfare of Anatolia, Union and Progress government was concerned with economic development of central Anatolia as well. Ten national banks were established in 2nd Constitutional Period but with very small amounts of capital. Total amounts of foundation capital of Istanbul banks were 6,5 times higher than that of Anatolian banks[21]. This disproportionality testifies the unequal capital accumulation rates of Istanbul and rest of the Empire. This unequal development arose from socio-economic characteristics of two regions: Istanbul had access to European capital and trained human resources. Industrial activities in Istanbul employed relatively better technology and hence more surplus value could be extracted from production. On the other hand, Anatolian economy was extremely labor-intensive. People were uneducated, climate was harsh and main means of subsistence was agriculture. Due to low surplus value of agricultural production, little amount of capital could be raised in Anatolia.

---

agricultural finance. Milli Aydın Bankası, Köy İktisat Bankası, Manisa Bağcılar Bankası and Eskişehir Çiftçi Bankası were examples of them.

[21] As shown in Tekeli and İlkin (1997:151-159) total amount of foundation capital of all Istanbul banks formed in 2nd Constitutional Period is 7.087.000 Ottoman liras whereas Anatolian banks have a total capital of 1.096.000 Ottoman liras.

In following years after the 2nd Constitutional Period, minority elites of Ottoman Empire lost their commercial power due to repressive policies of Union and Progress government. Capital concentrated on national bourgeoisie more intensively, and then foreign banks and bankers have been gradually erased from financial markets of Ottoman Empire.

2.3 Republican Period

The data on early-republican period of Turkey indicates an uneducated, non-urbanized agricultural nation of very low income level: per capita GNP was 65 USD (equivalent of 108 TL), the components of GNP being 67% agricultural income, 23% service sector income, 10% industrial income. 82% of total population has lived in rural areas and literacy was about %11 over the whole country (Türk, 1982).

Coming to banking and finance data, right at the time of declaration of Republic there was 35 banks in Turkey, 22 of them were national and 15 were foreign banks. At the same year, 60 % of total savings that amounted to 4 million TL were accumulated in national banks, whereas foreign banks held 40% of savings (Akgüç, 1989). Although those quantitative data are not perfectly reliable, they exhibit the fact that a large portion of loans was generated by foreign banks, meaning that capital markets were controlled by foreign capital to a large extent. Young Republic was still paying the deeds of immense right and privileges that are granted to foreign entrepreneurs by Ottoman Governments. In such circumstances, it was an imperative to take control of Turkish economy in both industrial and financial grounds. The first decisive action towards this goal was a congress of economy, assembled in İzmir in 1923. The congress took place between February 1923 and March 1923 in active participation of 1135 delegates from various industrial and commercial agencies (Ökçün 1997:16). General climate of the sessions was a critique of prevailing Ottoman policies on public finance and to take actions in favor of Turkish economic prosperity in absolute conditions of national sovereignty. A reactionary attitude towards foreign financial institutions operating in Turkey was apparent. Mahmut Esat Bozkurt, the Minister of Economy outlined the government’s economic ideology:

> We are not attached to laissez-faire, socialist, communist, étatist or protectionist schools of thought. We have a new school of thought, which belongs to the new Turkey and corresponds to a new economic outlook. I call it the New Turkish Economic School. (…). The new Turkey should follow a mixed economic system. Economic enterprises should be undertaken partly by the state and partly by private individuals. For example, the state should direct large scale credit and industrial undertakings.
>
> (Quoted; Ökçün, İktisat Kongresi, p.262-3)[22]

Major outcomes of the congress were formally as follows: (i) Abolishment of tithe (ii) establishment of currency exchange offices in prevalent centers of commerce (iii) acquirement of the right of coast trade (iv) establishment of a primary bank of commerce (v) establishment of a primary bank of industry (vi) setting up the basics of new Turkish labor law. It should be remarked that most of the decisions reached in the congress were aimed to generate a fundamentally new economic organization, with all proper agents, institutions and principles. All economic tasks were allocated between state and private economic units, and this system was called mixed economic system.

In Economy Congress of İzmir the role of banks in shaping the economic sphere was put on question. Underdevelopment of Turkish productive entities was explained with unorganized and inadequate financial system. Turkish economic revival should be initiated with establishment of effective credit and loan institutions. In current economic conditions it was impossible to handle it through private investment. Thus it is decided that financial capital accumulation should be generated by state-owned enterprises. A significant outcome of this decision was the immediate establishment of a primary commercial bank and a primary industrial bank. As a response to those premises, with strong initiative of Atatürk, Türkiye İş Bankası and Türkiye Sanayii ve Maadin Bankası were formed in 1924 and in 1925, respectively. At the same time, the operational structure of Agricultural Bank of Turkey was reorganized[23]. To be discussed broadly in following sections, those three

[22] The political and Economic Development of Modern Turkey. William Hale, 1981 p.39-40

[23] Previously being a bank of agriculture, Ziraat Bankası endowed with full functioning of a commercial bank. New legal arrangements permitted the Bank also to participate in establishment of industrial companies like sugar, cotton yarn and vegetable oil.

institutions had served to meet the needs of Turkish commerce, industry and agriculture.

Looking at the level of nationalization of Turkish finance at the first years of republic, dominance of foreign enterprises looks apparent: 15 of 19 banks were established with foreign capital, and 13 of them were managed from abroad. In other terms, 13 of the banks operated in Turkey were in fact branches of foreign enterprises (Çelebican, 1982). Taking amount of capital into consideration, the situation was even more dramatic: sum of paid-in capitals of Ottoman Bank and Salonica Bank was more than the total paid-in capital of all national banks, including Ziraat Bankası and İş Bankası. In comparative shares of deposits and loans, again, those two foreign banks surpassed the Turkish banks (Kocabaşoğlu, 2001).

Nevertheless, necessary financial organs to implement a national economic policy in the young republic were still non-existent until the beginning of 1930. Towards the end of 1924, in Turkey there were only 19 national banks operating. 17 of these were established in pre-republican period. Among those 19 banks, only one had 320 branches (T.C. Ziraat Bankası), 6 had up to 4 branches, and other 12 had only central branches. The total amount of capital of 19 banks was 38.475.000 TL and their paid-in capital was 21.910.248 TL. Total deposit of 19 banks amounted 13.157.198TL where total amount of their lending was 25.113.216TL[24]. A single bank, again T.C. Ziraat Bankası, was extending 73% of the total loans in the economy (Çelebican, 1982). As can be clearly observed, the whole banking system was relying on a single, state-owned bank. However, Ziraat Bankası, which was seemingly in leading position in national banking, was not a commercial bank in truest sense. It was specialized in agricultural banking that was non-preferable in the sector due to low profit margins and risky customer portfolio. Nevertheless, Ziraat Bankası was responsible for social duties and partially involved in bureaucratic part of the financing.

As quantitative data indicates, a national finance notion was still far from being realized in early Republican era[25]. Concerning this problem, republican policy makers' approach was not very different from their Unionist predecessors: To set up

[24] For numeric data on national banking for the first decade of republic, see appendix B.

[25] See appendix C-1 for comparative capital strength of national and foreign banks

and develop state-owned enterprises of finance and encourage the assembling of small capital-owners to form powerful private financial institutions. Most common versions of national banking were assemblies of small-scale merchants or landowners, usually with support of a senator from the same region[26]. As a note of interest, it was a highly common case to have a local bank manager who supports Republican People's Party (RPP) at those times. The Party was openly supporting local notables for satisfaction of mutual interests; just as the Unionist statesmen did in pre-republican period (Kocabaşoğlu, 2001, Kipal and Uyanık, 2001).

Local banks, despite their number, were poorly dispersed throughout the country. For instance, the largest private national bank of this era was organized in 20 regions only. However, considering the fact that the capital requirements of local entrepreneurs were modest due to their limited production capacity, those regional banks were responsive in meeting their credit needs. Between 1923 and 1933, 25 regional banks had formed for specific local economic activities. However, local banks could not respond resource needs of higher scale industries operating at national level. To nurture the high-production capacity industrial investments, large-scale public banks should have involved.

The first public bank of Turkish Republic, *Türkiye Sanayi ve Maadin Bankası,* established in 1925. The bank was specialized in industrial and mining loans. The bank also actively engaged in industry with its affiliates. In other terms, the bank was promoting and practicing national industry at the same time. It can be argued that *Sanayi ve Maadin Bankası* triggered the development of national banking; towards 1928 number of Turkish national banks amounted to 39. Coming to the banking of inhabitance and settlement, it was *Emlak ve Eytam Bankası* (1926) that was specialized in settlement loans. The bank aimed to organize and coordinate the settlement planning of urbanizing regions and made quite an achievement in collecting deposits and extending loans in domestic markets. The capital city Ankara was build up by significant resource contribution of *Emlak ve Eytam Bankası*. The bank has later on converted to *Emlak Bankası* in 1946. Thus, it may be concluded that, specifically between 1924 and 1926 one specialized bank has established for

[26] Some examples were *Aksaray halk İktisat Bankası* (1924), *Niğde Çiftçi ve Tüccar Bankası* (1926), *Şarki Karaağaç Bankası* (1927) (Ökçün, 1975:28)

each of four economic sectors, namely agriculture, commerce, industry and construction (Kocabaşoğlu, 2001; Akgüç, 1989).

However, the trend of upturn in national financing ceased down with an unanticipated crisis of capitalist secular trends. The year 1929 was the beginning of hard times for foreign banks operating in Turkey; between 1929 and 1936 number of foreign banks in Turkey dropped to nine from fifteen (Kocabaşoğlu, 2001:26). In comparison to their foreign counterparts, Turkish national banks were affected from the crisis in lesser extent; because of a higher degree of integration with world economy, foreign banks suffered in a higher extent from 1929 crisis. Turkish national banks, however indirectly affected by the crisis with a drastic decline in national production levels. Although the crisis ceased rather swiftly for Turkey, the depression warned Turkish government of the fragility of financial markets. Public banks appeared then more reliable macroeconomic resource units than private banks. Indeed, regarding Turkish Economic History, 1929 crisis was the first sharp turning point: as the year 1923 was the initiation of a liberal economy project, a strict confidence on the regulative forces of free market has suddenly ceased due to this unanticipated economic crash. For a couple of years after the crisis, between 1929 and 1932 rigid measures have taken in foreign trade and currency regimes. Then after 1932 a well-balanced mixed economy has started to operate. All economic policies of the time had one target: creation of a "national economy", a truly sovereign and self-sufficient Turkish national prosperity. Turkish mixed economy was theoretically grounded on two principles: to be *imperative* for public sector and *indicative* for private sector (Kılıçbay, 1992; Tezel, 1986). Until the private economic entities reach a certain level of maturity, state would replace it for some of its functions and provide infrastructure and some facilitating support for future private investments. This dual function of state was the essence of typical economic policy of Turkey in Republican era. Public banks became one of the primary tools of étatism. Public banks were the most reliable entities to collect resources from public and to channel into public investments[27].

In the field of national banking, establishment of *Türkiye İş Bankası* is of great importance. In August 25, 1924, *İş Bankası* was established with a nominal

[27] For more detailed information on how financial resources has been allocated between different sectors in the economy, see Appendix C-2

capital of 1 million TL and an initial paid-in capital of 250.000 TL. The latter was personally subscribed by Mustafa Kemal himself. Celal Bayar was entrusted with the management of the Bank, who was a dedicated Unionist once upon a time, in close affiliation with both administrative and economic units of young Republic presently. Not only Bayar but also all headquarters of the Bank were partisans of Republican People's Party. Regarding compatibility of the Party's philosophy and the mission statement of the Bank, this affiliation was quite understandable. Beginning from its establishment, İş Bankası acted like a bridge between government and private economic organizations. A minor part of the Bank's capital was provided by Turkish government. Therefore categorically, İş Bankası did not fit precisely in any side of public-private dichotomy. İş Bankası was the realization of "the primary commercial bank" project, which was put on agenda in İzmir Economy Congress. Republican People's Party held majority of its shares and some portion of its capital revenues was transferred into *Turkish Language Association* and *Turkish History Association*. In other words, the Bank was very close to government networks and affiliated institutions of the state. The Bank was also unique in the sense of being a business bank: the Bank not only provided resources for private business investments but directly engaged in business activities by means of affiliates and subsidiaries. Nonetheless, necessities of the real sector were still too much for a single bank to handle. Turkish banking system had to evolve towards greater efficiency and higher financial deepening.

In the first decade of Turkish Republic, there were numerous problems in Turkish banking system; and most of them were due to the lack of bureaucratic involvement in the finance system. For instance, by the years 1923 and 1933, banks had been operated without a common accounting standard and methodology. That means comparing two commercial banks in terms of their financial records would be virtually impossible. Moreover, there was no regulative and controlling mechanism for banking system. Financial authority had a limited auditing capability. Even if an irregularity occurred, a sanction could not be exerted due to lack of legislative measures. Establishment of a private bank was an easy matter, since no license or government authorization was needed. Command of Turkish Commercial Law was applicable for banking issues as if banks were same with other commercial institutions (Kocabaşoğlu, 2001:166). Nevertheless, a proper banking sector needs some specific legislative measures to arrange and secure its functioning. In 1933, *Law for Preservation of Deposits*[28] has passed from government. By this law, banks were forced to formally distinguish their retail and commercial deposits and report to the Ministry of Finance. With that law, financial statements of banks were also opened to the inspection of government officers. Same law also regulated the license of deposit collection for entrepreneurs engaged in banking.

Another missing part of Turkish financial system was a central bank. Since it was almost impossible to conduct a monetary policy and handle with the accounting of state treasury in absence of it, the Central Bank of Turkey was established in 1930. The financial aid for the establishment was provided by American Turkish Investment Corp. in exchange of the monopolistic right of lighter and match production in Turkey. The 10 million USD loan of the corporation was used as the foundation capital of the Central Bank. In order to facilitate fund raising, the Central Bank has established as a joint-stock company, open to the financial association of any Turkish firms or individuals (Tekeli and İlkin, 1997:67-71). Contribution to shares of the Central Bank was promoted with patriotic emphasis, as if it was a national duty.

The establishment of Central Bank initiated the era of bureaucratization of Turkish economy. Two years later, in 1932, *State Office of Industry* (SOI) replaced Sanayi ve Maadin Bankası. The Office was coordinating the management of state-owned industrial enterprises, it acted like a central management and investment planning unit. Appointment of administrative staff to the heads of SOE's, allocating resources to realize industrial projects and conducting research and development for effective production were other tasks of SOI (Kipal&Uyanık, 2001; Şahin, 2000). Bureaucracy of SOI was criticized for overcharging centralized control over private companies thus inhibiting private capital maneuverability. The office was also accused of damaging equal opportunity principle in economic competitiveness and absorbing the domestic capital accumulation on behalf of public industrial entities. Etatist ideology, however, resisted such market-driven critiques in order to set up a state-capitalism.

[28] Tur: Mevduatı Koruma Kanunu

Under the banner of étatism, at least two ideological categories situated: On the one hand, a circle of younger intellectuals associated with the journal *Kadro*, who acted as a radical ginger group within the ruling RPP during 1932-4, appear to have seen étatism as a permanent and preferable alternative to capitalism (Hale, 1981:56). They believed that capitalist exploitation could be avoided by replacing private capital owners by public capital owners. On the other hand, a more conservative group, led by Celal Bayar as the prominent figure, conceptualized étatism as a temporary phase that is necessary for encouraging private entrepreneurial activities and promoting accumulation of capital.

Ideology of economic étatism brought a new conception in the field of economic policy-making. The idea of economic planning was introduced by RPP government, in 1933. At the first hand, government wanted to have professional support from planned economy practitioners; notably the most competent ones were Russian economic policy-makers. To benefit from their expertise, a Russian delegation was invited to Turkey. They presented with a report proposing the basics of an economic development plan. A committee headed by a Russian economist proposed a five-year economic program and supported it by a loan of 16 million TL worth of gold (Hale, 1981:57).

There were further attempts to establish institutions that were necessary for revitalizing industrial, agricultural and commercial activities. In 1933 *Sümerbank* was found to extend loans into industrial sector, specifically in such fields as textiles, sugar, power generation, ceramics and sulfur production. *Etibank* was established to facilitate the financial needs of national mining. The bank was also nominally responsible for power plant installations. In 1935 *Mineral Research and Exploration Institute* and *Electricity Etudes Administration* were established. Unlike Etibank or Sümerbank, those ones were not autonomous economic entities, but were directly bureaucratic state offices entitled with solely administrative duties. Their expenses were included in annexed budget and they were directly attached to prime ministry.

Economic étatism was closely linked with nationalization of economy in most deeds of early-republican government. Foreign banks operated in Turkey aimed to provide resource facilities to foreign minority groups and support the financial activities of foreign enterprises investing in Turkey. Eventually, all the operations and accounting procedures of foreign bank branch offices were done in their own currencies until 1933. In 1933, *Law for Preservation of Deposits* obliged that all branches of foreign banks should exchange their paid-in capital with its Turkish Lira equivalent[29]. This was a precautionary step towards preservation of TL's relative power.

In the implementation of national industrial development plan, the role of state-Owned Enterprises was crucial. The revival of Turkish banking sector was again realized with the support of state: in 1935 Etibank, in 1937 Denizbank and in 1938 Halk Bankası founded and upheld by state capital. We can deduce that the economic conditions Turkey of those times were not suitable for the emergence of private commercial banks and the gap was tried to be filled up by state capital. Such an economic climate was unsuitable for the implementation of an efficient national monetary and credit policy. Turkish government approved the establishment of SOE's as a response to Turkish economic needs that cannot be fulfilled by inadequate resources of private sector. In 1938, the law for SOE's has passed from the parliament. SOE's were assigned a corporal body whereas their capital belonged to state and their budget maintenance was autonomous.

Self-sufficiency in economic activities was the primary goal of Turkish government of early-republic era, but this did not imply a complete isolation from foreign capital. Atatürk himself did not reject foreign enterprises to be operated within national boundaries. But he was definitely against the privileges granted to the foreign capital. Foreign loans were always welcomed in proper conditions. In early republican period, two foreign loan agreements were significant: an agreement of 8 Million USD equivalent loan with Soviet Union and 16 Million Pounds agreement with Britain in 1934 and 1936, respectively[30]. Until the sharp decline in economic activity during World War II, Turkish economy significantly grew during 1930's: During 1930-9, the overall rise in GNP was around 6% per year, or an average growth rate of around 5% for agriculture and 11% for industry (Hale, 1981:75).

---

[29] Nevertheless, it did not alter the dominant status of foreign banks over Turkish financial system; for instance, just two foreign banks lending (Osmanlı Bankası and Selanik Bankası) were 3,5 times more than the lending of Turkish national banks. The amount of their deposits were also 6,5 times higher than their national Turkish counterparts (Pamuk, 2000:87).

[30] Those loans were used in establishment of first Turkish SOE's like Karabük iron-steel factory and Nazilli cotton yarn textile factory (Pamuk 2000:91).

2.4 1940-1950 period: Wartime/Postwar turmoil

2.4.1: Political and Economic Outlook

Although Turkey did not participate in Second World War, national economy was in state of war and all social strata have deeply experienced wartime inconveniences in their everyday life. Government that has successfully kept the country out of war could not handle post-war implications. Those who look for profitable chance from economic bottleneck had practiced various ways of "good deals" like black market profiteering, stocking, and money market speculations. Moreover, heavy taxation on consumption and income taxes on salaried employees deepened the gap between rich and poor, but could not improve the budget deficits. The new law for land proprietorship openly sponsored landowner elite over modest farmers, further increasing the wealth of the latter. But the most disputable applications had been made in taxation issues. The notorious Property Tax of 1942 put the ethics of taxation into question[31]. Indeed, Property Tax revealed a latent function of étatism: nurturing the growth of a new class of bourgeois entrepreneurs, in expense of dispossessing the wealthy minorities. This fiscal enactment was compatible with the ideal of national capitalism, whose first steps were taken in early 1930's[32].

In order to minimize the damaging effects of war to the economy, government cut from expenses as possible and overstrained all possible income opportunities. But even such extreme measures of tight fiscal policy failed to provide a budgetary discipline to treasury. During the war, government expenditures exceeded tax revenues by a substantial margin: the annual expenses that have increased by 34,2% in 5 years period between 1935 and 39, have increased by 38,6%

---

[31] In collection of the tax, responsibility of non-muslim minorities was 4 times greater than muslim Turkish citizens. The ones who cannot afford to pay their dues from minorities were gathered up in concentration areas then they were sending to Aşkale, a southeast region of Anatolia, for slavery working. Capital tax was valid until March 1944 and become one of the most disputable ways of "extraordinary taxation" in history of Turkey.

[32] Actually, 1940's étatism was a mere extension of national solidarist Union and Progress ideology. Both of them adopted a technocratic mentality in perceiving economic conditions of their time. They also put national sovereignty on the top of their agenda, i.e. economic self-sufficiency and competitive force of economic entities.

in just one year between 1939 and 1940 (Kepenek&Yenitürk, 2003). The deficit was covered by public borrowing, which in turn led to a sharp increase in the internal public debt. Current account deficits widened, public sector borrowing requirement increased, industrial productivity worsened. As a result of ongoing war, resources that were allocated for industrial purposes had to be directed to military expenses. Import of capital goods was getting increasingly expensive and long-term industry investment plans had to be re-considered. Projects for more than 100 factories in the second 5-year industrialization plan had cancelled in this period. In the meantime, opposing voices were rising from (RPP). An opposing group in the Party, led by Celal Bayar himself, insisted on liberal economic policies with free trade and subsidies to private sector. They believed that time for state capitalism was over and Turkey would prosper through investment incentives given to Turkish entrepreneurs in the warm climate of an open economy. Although the strain between opposing groups of the Party was apparent, they were in a silent consensus in the fields of international economic relations. Although national sovereignty principles were still holding, need for foreign resources were undeniable. Truman Doctrine (March 1957) and Marshall Plan (July 1948) were first bricks of Turkish political and economic integration with the West, in particular, United States of America (Ahmad, 1995). Turkey's membership of NATO was the peak of this collaboration.

Rigid economic policies of RPP did not help to recover the stagnant economy. Inevitable devaluation took effect in 1946 and one USD increased its TL purchasing power from 180 Piasters to 280 Piasters (Zarakolu, 1974:61). This was also the first devaluation in the history of Republican Turkey. Then a subsequent increase in the prices of all imported goods destabilized the domestic price levels further. Productivity was decreasing and capital shortage was hindering new industrial investments. The only hope was in the re-vitalization of post-war economy with increased capital mobilization and encouragement of foreign direct investments. In augmenting popularity and excitement towards the liberal alternatives, RPP had to make concessions from economic conservatism: At the seventh assembly of RPP (November 1947), party executives declared the decision of absolute support to private sector and convenience to foreign capital. Priority of private investment in every economic venture was accepted as a principle and promised to provide every facility and incentives possible for a corporatized domestic economy (Kocabaşoğlu, 2001). At the same year, a 5 years development plan was declared. According to the plan, all economic duties of the state would gradually transferred to private sector except mining, energy, iron and steel industries and railroad construction. The Plan's suggestion for financing the expenses merits attention: 49% of the investment expenses would be covered by foreign aid or credits (Kepenek and Yenitürk, 2003:92). Although these developments showed a visible contradiction to RPP's basic ideological principles, re-vitalization of economy was regarded in higher importance.

2.4.2 Banking and Finance

We have already stated that wartime circumstances are useful for rapid accumulation of wealth especially if the capital owners are supported by the state. Despite the macro-economic instabilities of the time, banking sector found incentives for recurrence. Indeed, money supply expansion of Central Bank led to an increase in the amount of bank deposits, as well as inflation level and depreciation of domestic currency. So to say, inflationary pressures also stimulated the financial deepening in Turkey. However, this temporary recovery did not affect all banks in the sector at the same level; some of the regional banks could not benefit at all, whereas large-scale national banks increased their capital and revenues. In 1938-1948 period, 10 local banks, 1 national (Denizbank) and 2 foreign banks (Deutzche Orient Bank and Deutzche Bank U.G) ceased to function. On the other hand, 5 powerful commercial banks emerged in the same period: *Yapı ve Kredi Bankası* (1944), *Türkiye Garanti Bankası* (1946), *Türkiye Kredi Bankası* (1946) and *Tutumbank* (1946). Especially Yapı ve Kredi Bankası achieved a rapid growth in that period (Zarakolu, 1974:55). However, raising inflation rates hindered a dispersed trend of capital development. Level of domestic total savings was no match for ascending capital requirements of Turkish financial sector.

2.5 1950-1960 period: Trial of Economic Liberalism

2.5.1 Political and Economic Outlook

When the second World War ended, it took a few years for the world economy to recover and open way to a new economic paradigm: an era of economic integration with loosened control over capital markets and lesser restrictions to international trade. This new trend found its reflections in Turkey as well; liberalism undermined protectionism and closed-economy practices. Trends of this new liberal paradigm deeply affected Turkish political life as well, especially in leading economic policies towards liberal practices. Using populist discourses of prosperity and wealth, Democrat Party (DP) came into power in 1950. The party was promoting a liberal economic system, emphasizing the driving force of private entrepreneurship. Unlike its predecessor, DP government regarded agricultural sector with more attention and care, at least out of respect to their electoral power. The party's first deeds were liberation of import by 60% and proceeding Turkey's membership to IMF. DP government took precautions against excessive state intervention to the economic functioning. Foreign capital was encouraged by all means and private investments were supported. As a contrast to RPP, DP government took privatization into agenda and this was the first time in the history of Turkish Republic.

The first three years of 1950's were golden age of the Democrats' government. Subsidies for agriculture increased; then in early1950's, quite an amount of surplus could be raised by agricultural production positively reflected in growth rate indicators. Indeed, the year 1950 was the initiation of a short recovery trend for Turkish economy. For three years, GNP has increased by 11,3%, GNP per capita progressed by 8,5%, exports have risen by 48,8%. There were several reasons for this (Şahin, 2000:102-03) first of all; there were extraordinarily good climatic conditions in harvests enabling the highest agricultural productivity. Secondly, during three years, prices of agricultural products have risen tremendously in world markets and all countries exporting agricultural products were better off. Lastly, low-cost foreign liabilities and American donations (specifically the donations of Marshall Plan) partially channeled into mechanization of agriculture and industrial investments, and that was significantly contributed to national income increase. But in 1953, beginning with the worsening climatic conditions for plantation, inflationary effects of rapid economic growth and widening gap of trade deficits, the surpluses suddenly ceased.

By the mid-1950's, expectations had already begun to turn sour, as production decelerated and inflation began to erode real incomes. Liberation in foreign trade boosted importation expenses more than exportation revenues and this lead to heavy current account deficits. The ratio of exports to imports exhibits the dramatic situation in trade balance: The ratio has receded from 1,8 in 1946 to 0,63 in 1955 (Kocabaşoğlu, 2001:366). Unavoidably, then, escalating inflation and depreciation of domestic currency followed on. As a consequence, DP government was forced to give up some practices of liberal economic policies and returned to quota and tariff economies. Foreign trade and all types of monetary transaction with abroad were restricted. Import substitution model has appropriated in expectation of exchange rate stability. The precautions improved the situation a little: between 1954 and 1957, current account deficit was reduced by 51.9 Million USD. Nevertheless, especially populist agricultural policies of DP government and expansionary effects of import-substitution model gave rise to inflation. As a result, black market became a part of daily life and poverty became a structural problem (Ahmad, 1995; Kipal and Uyanık, 2001; Kepenek and Yentürk, 2003).

2.5.2 Banking and Finance

For this period, one can observe that concentration and centralization of national finance capital has progressed (Artun, 1983). Indeed, 1945-1960 period witnessed the rise of private national banking. The years between 1950 and 1955 were especially fruitful in which some banks of great significance were established: *Demirbank* (1953), *Pamukbank* (1955), *Şekerbank* (1954), *Türkiye Öğretmenler Bankası* (1959) and *Vakıflar Bankası* (1954). One of the major investment banks of Turkey, *Türkiye Sınai Kalkınma Bankası* established in 1950. In 1951, the State Maritime Line's status as an annexed budget institution was legally ended, and its ownership was transferred to Maritime Bank (Hale, 1981:88). 30 new banks were formed and existing ones increased their branch offices[33].

Rapid development of banking is more apparent in quantitative data: from 1948 to 1961, total paid-in capital of banking system amounted from 36,5 million TL to 2,8 billion TL, total deposits from 996,3 million TL to 8.541 million, total loans from 1.187 million TL to 9.362 million TL (Artun, 1983:45). Albeit some part of the increase was due to inflation, the progress was still significant. Expansionary monetary policy of DP government was effective in realization of the scheme above. With a rigid monetary policy such an outcome would hardly be possible.

Improvement in retail banking was another characteristic of the period. Again between 1945 and 1960, total number of branches in the banking system has increased from 369 to 1699. Taking foreign bank branches into account, this number amounts to 1759 (Kocabaşoğlu, 2001:378). This was a result of high profit margins of banking operations and interest revenues. In spite of government controls on maximum interest rates on deposits, due to lack of audit and inspection, effective interest rates were always higher than legal maximum for this period (Kocabaşoğlu, 2001; Kılıçbay, 1992).

Another characteristic of the period was the initiation of corruption in banking sector. First examples of illegal placement of bank resources practiced in 1950's. *Doğubank* (1952), *Raybank* (1956), *Tümsübank* (1957), *Esnaf ve Kredi Bankası* (1957), *Sanayi Bankası* (1958) and *Maden Kredi Bankası* (1958) liquidated by court decision in following decades (Artun, 1983). Menderes' motto "Creating a millionaire in every corner" could be interpreted in many ways and it had such illegal implications, starting from very beginning of 1950's. *Laissez-faire, laissez-passer* policies of 1950's gave rise to operational irregularities and weakened the control measures in banking activities. The perverted form of financier-bureaucrat-politician relationship has initiated during the DP government, in the climate of this liberal paradigm.

[33] Considering the fact that only 11 of them could survive until 1980's, it can be stated that capital structure of the banks that are formed in 1950's was not very strong. However, the ones whose founders are effective national bourgeois figures faced no difficulty at all in progressing and prospering in the quicksand terrain of Turkish economy.

In July 1958, the Banking Law was modified by the parliament. In statement of reasons of the new law, it was indicated that the previous law was poorly indexed with imperative measures for proper handling of the bank; it was unable to prevent irregularities in banking operations and insufficient in regulating deposit and loan procedures (Kocabaşoğlu, 2001). By this code, for the first time the Law regards financial institutions distinct from other commercial entities and enforce them to take care of their depositor's rights. The Law secures depositors' rights in confrontation with bank owners in case any violation of depositors' legal claims. The Law regulated the banking system in a way all transactions follow a specified pattern and recorded to official documents in proper manners. The law had been modified 4 times until the end of year 1962.

Adnan Menderes Cabinet's most crucial area of policy was strong opposition to the principle of economic planning and minimizing the state's dirigist role in the economy. Both principles partially grounded on the anxiety of communism, and complementary to ideal of becoming a "little America". Nevertheless, private industry was reluctant to take over the state economic enterprises. SOE's were simply too large organizations to be accustomed by individual entrepreneurs of family partnerships. As a consequence, DP's ideal of economic denationalization has failed in most intended areas. Moreover, DP's greed for electoral popularity led state's industrial investments to politically sensitive but high-cost areas resulted with heavy losses of government capital. In overall, it is not surprising that Turkish industry became less efficient as the 1950's progressed. Early successes of the Government mostly ascribed to chance or exogenous factors, such as favorable climate and foreign aids whereas the failures attached to policy makers' lacking discernment and refusal of any reasonable long-range economic planning (Hale, 1981; Ahmad, 1995).

2.6 1960-1979 period: Rise and Fall of Economic Planning

2.6.1 Political and Economic Outlook

The year 1960 was a breaking point in Turkish economic and social life. 10 years long economic liberalization trial was over, with an unanticipated end.

Following the devaluation in 1958, in 1960 current account deficits rose to 140 million USD. Due to expansionary fiscal policies, loss of Central Bank of Turkey between 1950 and 1960 amounted to 312,3 million TL. Such a loss was inevitable since at the same time period, government expenditures were increased by 606% in ten years (Şahin, 2000:117-118). Looking at that scheme, it should be apparent that policy makers had acted uncoordinated, performed arbitrary policies without regarding the economy's true needs from a long-term perspective. Most investments were directed to production of consumption goods to satisfy domestic demand whereas needs of economy were infra-structural investments and auto-financing projects. Moreover, high cost of investments increased the requirements of foreign borrowing and economic dependence solidified. In spite of all the efforts the governments had made, private sector could never reach the maturity to handle major real-sector investments. Consequently, state has carried out those investments but could not generate an effective fiscal policy to transfer resources from domestic economy to SOE's. Central Bank resources were left as the sole alternative and this resulted with high inflation and balance of payments deficits. Despite the serious implications of its absence, government seemed not convinced for the necessity of planning. But at least the party in power agreed to establish a ministry of coordination (1958), whose duty was to coordinate and synchronize the deeds of state investment agencies (Şahin, 2000:127). The ministry itself was a short-lived prototype of a state agency for economic planning, dismissed without making any significant contribution. A structural reformation was needed to achieve economic stability.

National Solidarity Government (NSG) that was formed right after the coup d'état of May 27 (1960) followed a program of economic stabilization by cutting-off government expenditures and accommodating tight monetary policy. Nevertheless, such policies would inevitably lead to economic stagnation. In order to avoid this, a state-supported investment policy in selected economic areas was necessary. Thus for the first time, after NSG's strong insistence, planning has entered the agenda of government.

The distinctive philosophical feature of 1960's political economy was appreciation of scientific methods in economic decision-making. Effective coordination of economic units and stability in procedure design were primary concerns of economic bureaucracy. *State Planning Organization* (SPO) was a product of that mentality. The institutional structure of SPO was designed to employ technical experts: economists, statisticians and social scientists, who were assigned to prepare economic plans then report the outcomes to political authority (Hale, 1981:141). In other terms, SPO was a body of technical advisory attached to the Government, equipped with partial technocratic autonomy.

The idea behind national planning was to complement and correct the fragility and drawbacks of market system. State intervention was necessary to identify preferential areas of investment, calculate the costs and approximate probable benefits of investment to national prosperity. Government incentives were used to revitalize sectors of priority for national welfare, either by providing affordable capital resources or by directly involving in the entrepreneurship.

Economic planning became a constitutional fact by 41st article of 1961 constitution[34]. Nonetheless, on the parliament, there were members who considered SPO as an extension of military-cum-bureaucratic ideology to which they were opposed. In its party program, *Justice Party* (JP) accepted the principle of planning but it was nevertheless anxious to limit the planners' power. Süleyman Demirel, the JP leader, summed up his position in following terms:

> It is impossible to accept the idea that the technicians get everything right, that they know [everything] about these [economic] topics, that the politicians get everything wrong, that they should not get involved in things which they do not know about… The fear that politicians and political forces will inevitably get things wrong should be erased from our minds. Unless it is erased, parliament will be just a talking shop.
>
> Süleyman Demirel, *Büyük Türkiye*. Dergah Yay. 1975 p.245[35]

The latent statement that is inscribed above is, in case of the directives of planning authorities would contradict with some political decisions of the parliament, the binding power of economic bureaucracy should be loosened to give way to

[34] The article commands, "Economic planning is the duty of state" and with modification of 129th article, "the rules that government should be submitted for planning issues is arranged".

[35] Quoted in: The Political and Economic Development of Modern Turkey. William Hale, 1981 p.142

parliamentary decision. Since the power of final decision lies at the hands of the parliament, imperative power of bureaucracy would be limited once again so that not to be a challenge to the political initiative.

Formal objectives of the plan were realization of a high and sustainable growth, improve the balance of payments, decrease unemployment rate, improve the income distribution and provide social equality for all levels of society. The program would be followed in three subsequent segments of five years each, planning the economic development for the period between 1963-1977. The prior duty of state, according to plan statement, was to elevate savings to a certain level to refund the necessary government investments. State would achieve this goal through active involvement of social security institutions, public banks, taxation and national support by means of avoiding unnecessary luxury consumption (Zarakolu, 1974:68). By this framework, one can easily deduct that the focal point of development plans was to achieve a sustainable economic growth and attain a certain level of industrialization. For the first planned period, a growth rate of 7% was predicted, which would be achieved by a total investment of 18% of GNP (Zarakolu, 1974:69). The planned development statement also expressed sensitivity for not worsening income distribution. Especially unequal development of East-Southeast regions and West-Northwest regions had to be fixed and majority of public investments in the plan were directed to most underdeveloped regions of the country.

First and Second segments had insisted on the strategy of incentive and support to private entrepreneurship. The third segment differentiates from previous ones by its emphasis on state's direct involvement in industrial activities. The idea behind that policy shift was probably to keep the equilibrium of mixed economy whose liberal part was relatively overstated. Although being differentiated in a number of issues, common features of all three planning periods were import substitution model, fixed exchange rate and protectionism in foreign trade.

During the first 5-years, growth rate had realized as 6,6%, slightly lower than expected. This was partly due to anti-inflationary precautions that government had to take to control monetary expansion and hence decelerate the aggregate demand. Some unprecedented productivity loss in agricultural production also adversely affected overall performance of the economy[36]. Best performing year of the planned period was 1966, in which growth rate had amounted to 10,7%. Second segment was negatively affected by international politics concerning Cyprus and Middle East. The situation has recovered a year later and economy went into a little slower but more stable development trend. Towards the end of second and beginning of the third segments, inflationary pressures took effect and stability in price levels lost forever: Average annual inflation of 4,5% between 1963 and 1970 jumped to 18,6% for 1971-1976 period (Şahin, 2000:157). War in Cyprus has boosted military expenses, which in turn reflected in current year's inflation rates as 30%.

The third period was deeply affected from the oil crisis of 1973. In an import-substitution model, substituted goods should be necessarily final goods, since intermediate goods were still dependant on imports. Especially in the production of durable consumption goods, reliance on imported intermediate goods was a critical factor in worsening the trade deficits. Oil was also an extremely important intermediate good for industry, and relatively law price of oil enhanced Turkish industry's heavy reliance on oil products. But one of the greatest shocks on domestic economy had been realized right at that conjuncture: In 1973, OPEC cartel increased oil prices four folds, heavily damaging all developing countries that were using petroleum as a primary intermediate good. Turkey was one of those countries and suffered a lot from the oil crisis. As a consequence, currency reserves exhausted –reflecting into a huge current account deficit-, domestic prices rose up drastically, production costs get heavier than ever for the industry and production decreased. The result was high inflation and high unemployment at the same time, which is called stagflation, known as the worst situation that can be experienced in an economy.

The fourth period was supposed to run from 1978 to 1982 but due to severe crisis conditions in economy and unstable political conditions, it has been disrupted by coup d'état of 1980 and economic planning era came to an end.

Considering annual growth rates overall development performance of 15 years planned period was positive: average industrial growth rate of 1963-1976 period was 9,8%. At the same period, 52,7% of total industrial investments was financed by public resources. On the other hand, only 45% of savings were raised by

[36] Planlı Dönemde Bankacılık ve Başlıca Bankalarımız. İş Bankası Yay. 1973. p.8

public financial institutions (Şahin, 2000:152). Public sector tried to fill the gap by public borrowings from domestic and international markets.

Comparing the three planned development segments, greatest debt burden on public occurred at the third segment in which 30% of total fixed capital investments were realized by external funds. At the initial segments this ratio was 18,6% and 15,1%, respectively (Şahin, 2000:152). *Devlet Yatırım Bankası* was effective in providing funds to SOE's at the beginning but increasing resource requirements of SOE's forced the government to seek funds elsewhere[37]. Although opportunities were limited, foreign borrowing was the most feasible solution.

The methodology that is used in planning was not flawless. Many errors have occurred at any stage of estimations and calculations. Nevertheless, economic performance of the planned economy was deeply affected by the attitude of political authority towards the notion of planning. As it was stated before, the idea of objectively determined economic guidelines conducted by autonomous regulatory agencies (i.e. bureaucracy of economy) never got compatible with will of the parliament. Parties in power were always more comfortable with arbitrary decisions for short-term political interests. Particularly, as the party in power controlled government expenditures instead of an autonomous bureaucratic office, they became an excellent tool of political populism. Taxation, subventions and direct transfer were favorite instruments of government in gaining popularity from public, especially at upcoming general elections. Thus, on behalf of political will, the application of strategic planning was quite problematic.

Another obstacle on the way to a consistent planned economy was the attitude of private sector towards the issue. Private sector representatives often accuse state planners of discriminating SOE's over private corporations. Indeed, planned economy was an effective policy only if public sector has a degree of control

[37] In situations where foreign resources were unavailable or insufficient, Central Bank credits were at dispose of SOE's. Nonetheless, CB option was an inflation-boosting one and evaluated as one of major causes of high inflation at 1970's. Therefore one can say that economic growth in planned era was realized at the cost of high inflation, an increased dependency on foreign resources and a huge debt burden to following decades. One can reach the same conclusion regarding poor improvement in national savings; in macro level, a critical gap between investments and savings occurred. In this context, insufficient accumulation of bank deposits must be taken into consideration. Gold, foreign currency and immovable were always more attractive investment options for households; considering almost negative real interest revenues for 1960-1975 period. [T.İş Bankası Tarihi]

over the markets, at least in strategically important sectors. Regarding the close affiliation between some entrepreneurs and parliament members, one can remark mutual interests of both parts in interruption of effective functioning of planned economy. Or at least influential bourgeois elites could get associated as pressure groups on government to disrupt and manipulate planned economic proceedings for their own gains.

The bourgeoisie was not the only pressure group on government. The climate of 1960's social atmosphere was largely affected from liberating environment of 1961 constitution. Then for the time being, Turkish public sphere enriched by a variety of subjects that can be effective in decision-making process: trade unions, commerce chambers, cooperatives, foundations and so forth. Those entities acted as pressure groups shaping the course of economic planning and applications. Some of those groups were representatives of high electoral power, hence more bargaining power with respect to their counterparts. Claims of such groups often contradicted to the rationally acceptable economic goals. Unfortunately, economic bureaucracy that operated under too much pressure of political authority often failed to insist on implementation of reasonable economic policies. This problem was visible especially in the fields of public finance: Tax exemptions, supports and transfers, social security composition and so forth, adjusted in response to the interest of various pressure groups. The central assumption of a neutral, benign state who has no interest of is own, is irrelevant for Turkish case. Real economy could tolerate this intrusion up to a certain level, but such arbitrariness in economic policy-making could not be sustained forever.

From the beginning of 1970, need to a new structure of economic bureaucratization became apparent. 1970, new law of Central Bank came into power. For 40 years, Central Bank of Turkey was operating with a very limited power and autonomy. In 1970, CB was granted with an extended power to adjust the level of interest rates and conduit money and loan policies. In order to prevent arbitrary funds transfer from Central Bank to Treasury, a limit of Central Bank loans has set up in funding of Treasury[38]. That was a step forward to CB autonomy (which has yet to overcome) because the Treasury was an extension of government. With the new law

[38] New Law of Central Bank commands "Treasury can benefit only short-term treasury advances, which cannot exceed 15% of current year's total budget allowances" Öcal, 1973:30.

arbitrary and unprecedented resource demands of government from the Central Bank is limited. However, subsidies for agriculture and short-term funding of SOE have crippled the CB autonomy by submitting it again to political authority in various occasions.

2.6.2 Banking and Finance in Planned Economy

By their duties of planting capital into planned economy investments, public banks became prime economic entities of 1960's. Financial reorganizations, incentives for the establishment of investment and development banks, tight control on resource allocation and loan placement of public banks and restrictions to foundation of new commercial banks should be interpreted in this framework.

In long term economic planning, resource placement plans of banks also were scheduled in long-term timetables. The prominent investment and development banks that had established during planned era were *Devlet Yatırım Bankası* (1964), *Sınai Yatırım ve Kredi Bankası* (1963) and *Türkiye Kalkınma Bankası* (1975). Nevertheless, total number of banks that are established between 1963 and 1979 was only 5 (Artun, 1983:49). That means 3 of the 5 new banks were investment and development banks. Then, since elimination rate of existing banks exceeded establishment of new ones, total number of banks has dropped at the end of the period of economic planning. In 1963, total number of 52 banks was in operation, whose 47 were national and 5 were foreign. In 1967 and 1976, this number had dropped to 47 and 37, respectively (Kocabaşoğlu, 2001:489). The reasons for contraction were liquidation of small-scale regional banks and bank merging. Those banks that cannot merge to strengthen their financial status were gradually eliminated from market and left their place to powerful rivals. Considering uneven development in the real sector, disproportional development in financial field seems inevitable. In a time period when 11 banks ceased to function, three greatest national banks of Turkey: Ziraat Bankası, İş Bankası and Yapı ve Kredi Bankası increased their number of branch offices from 616 to 810, 240 to 517 and 135 to 379, respectively (Zarakolu 1974:73). Due to the organizational expansion of major banks, number of branch offices had increased for overall sector: 1.840, which was total number of branches for the year 1963, has amounted to 5.769 in 1979[39]. Because of the unstable character of Turkish economy, foreign banks had been losing their interests to operate in Turkey and gradually withdrew from Turkish markets.

In studying the backstage of developments in the banking sector, one should take legal concerns into consideration. It was stated that improper dealings in the field of banking sector initiated in early 1950's. Since no serious juridical measures have been taken so far concerning illegal banking activities, speculation and abuse of bank resources continued in planned economy as well. Local banks were more susceptible to abuse of their owners and also their inspection was not easy to handle. Subsequent liquidation of corrupted commercial banks forced the government to be extremely cautious about newly emerging ones.

Planned development period introduced a new model of banking corporation: holding companies. Holding formation was a manner of rapid growth for private commercial banks. By assembling a holding company, commercial banks were able to control a large quantity of resources with relatively small amount of capital. Holding mechanism was a cost-effective system that provides tax reduction, operational flexibility and prestige in the markets. First prototype of holding company bank in Turkey was Akbank, owned by Sabancı Group. Success of this model led other companies to purchase or establish banks and compete with Sabancı group in financial markets. Çukurova Group increased their impact on Pamukbank. The Group also competed with Sabancı Group in acquisition of Yapı Kredi Bankası and succeeded it. At the end of 1989, Çukurova Group had control over 3 commercial banks, namely Pamukbank, Yapı Kredi Banksı and Uluslararası Endüstri ve Ticaret Bankası. After leaving its share of Yapı Kredi Bankası to Çukurova, Doğuş Group took control over İmar Bankası. Towards the middle of 1980's, Uzan Group took over İmar Bankası and established Adabank. Then Doğuş Group bought the shares of Garanti Bankası from Sabancı and Koç Companies. In Aegean region, Yaşar Group owned Türkiye Tütüncüler Bankası whereas Egebank was in control of Hüseyin Bayraktar (Akgüç, 1989). Government was well aware of close affinity between inclination to holding formation and oligopoly. But for the sake of capital

[39] One should remark that foreign banks did not contribute to that scheme: since only 0.03% of these were foreign bank offices, this improvement has performed by national banks only (Kocabaşoğlu, 2001:489)

accumulation, state barely interfered into merging of banks and companies. Indeed, holdings enhanced the formation of joint-stock companies in the economy and increased profit margins of companies. Here a significant outcome of holding process appears: operational revenues of industrial companies accumulated in the form of capital and channeled into affiliated commercial banks. Thus, industrial companies purchased shares of commercial banks and became associates whereas commercial banks ventured into industrial activities by forming affiliates and subsidiaries. In some cases holding company emancipates around a commercial bank or a commercial bank might join to an industrial company. İş Bankası was an example of former case; but most holdings of our time appeared in the form of the latter. Observations reveal that towards the end of 1970's, the integration of finance capital into industrial holding groups has localized around 15 banks: Eskişehir Bankası/Zeytinoğlu Grubu, Akbank/Sabancı Holding, Tütüncüler Bankası/Yaşar Holding, Yapı ve Kredi Bankası/Çukurova Holding, Türk Ticaret Bankası/ Çukurova Holding, Pamukbank/ Çukurova Holding, Türkiye İmar Bankası/Doğuş Holding, Türkiye Bağcılar Bankası/Sürmen Grubu, İşçi Kredi Bankası/Nişkoz Holding, İstanbul Bankası/Has Holding, Demirbank/Cıngıllıoğlu Group, Garanti Bankası/Koç Holding, İşçi Kredi Bankası/Emin Hattat Group, and Hisarbank/Çavuşoğlu-Kozanoğlu group (Kocabaşoğlu, 2001:489).

The period of state-supported development brought a suitable climate for financial progress. Especially increasing transportation facilities, rapid urbanization and industrial thrust significantly gave rise to real economy's need for additional resources, by means of liquidity and loans. Existing banks that have already achieved operational stability and strong financial structure improved their status. Indeed, number of branch, the amount of deposits collected and loans launched. The table below illustrates us the rapid growth of major commercial banks of Turkey (Zarakolu, 1974:73). On the other hand, those who were regional, local, and small-scale could not prevail until early 1960's. Therefore an uneven process of financial development was a major characteristic of planned era of Turkish economy. The tendency of financial institutionalization was a detachment from "large number of small-scale regional banks" towards "small number of large-scale nationally organized banks". In other terms, Turkish banking system began to gain its oligopolistic character. For the decade between 1960 and 1970, Turkish financial system had been dominated by 8 major commercial banks: T.C Ziraat Bankası, Türkiye İş Bankası, Yapı ve Kredi Bankası, Akbank, Türk Ticaret Bankası, Türkiye Garanti Bankası, Osmanlı Bankası and Vakıflar Bankası. As of 1962, total assets of those 8 banks were 11.650.000 TL, whereas total assets of Turkish banking system were 22.200.000 TL, meaning that 8 banks held 52% of the total assets. In 1972, those values amounted to 75.405.000 TL and 111.446.000 TL, respectively. That means in 1972, 68% of total assets in the system was held by 8 banks[40]. In 1962 and 1972, those 8 banks acquired 83,4% of total deposits as they opened 75,9% of total commercial loans in domestic economy[41]. As a consequence, 1962-1972 period witnesses a concentration of resources into large-scale banks of strong financial capability. Akbank whose resources had grown 21 times in a decade did the most brilliant performance. All over the period, *T.C* Ziraat Bankası preserved its leading position in total assets, capital and number of branch offices. Ziraat Bankası's share in total assets varied between 24,3% and 23,9%. Second largest institution was İş Bankası and its share in total assets fluctuated between 13,7% and 16,2[42]. Apart from comparative market shares, the homogenous character of the services that those banks were providing was another indicator of oligopolistic structure of banking system. Pricing of those services were often determined by either the common policies of 3 major banks or solely by public authority.

2.6.3 Capital markets in Planned Economy

Although İstanbul had a stock exchange since 1868, trade in equities was still fairly restricted; most shares were held by banks rather than private individuals. Beginning from early 1960's there have been many attempts to widen shareholding and introduce more safeguarding for small investors, but little has been achieved. By 1979, capital markets were represented by banks with a 90% weight in overall money transactions (Demirkan, 1981). Since the main placements of the banks were in form of loans, bank profits would largely depend on real sector activities.

[40] Planlı Dönemde Bankacılık ve Başlıca Bankalarımız. İş Bankası Yay. 1973. p.103

[41] Planlı Dönemde Bankacılık ve Başlıca Bankalarımız. İş Bankası Yay. 1973. p.104

[42] Planlı Dönemde Bankacılık ve Başlıca Bankalarımız. İş Bankası Yay. 1973. p.41

Economic stagnancy hindered private investments considerably, so loan portfolio of commercial banks remained modest: In 1979, the ratio of aggregated bank loans to GNP dropped to 18% from 25% (Kocabaşoğlu, 2001:493). Furthermore, the funds that could not be transformed to outstanding loans, rested inactive since banks were not allowed to hold foreign currency or transfer their funds outside the country. The only refreshment that state can provide to capital markets was a limited expansionary policy expanding the monetary base. Nevertheless, that solution remained temporary. Rapid acceleration of inflation and lagged interest rate adjustments brought negative real interest rates: In 1979, real interest revenues dropped to –27%; and this was disturbing enough for funds to be retreated from capital markets. Withdrawn funds were often placed on gold, immovable and speculative tools like foreign currency and stocks.

Capital markets of Turkey have developed in accordance with resource requirements of the real economy. As long as growing industry and commerce sought for investment capital, lending units of economy could extend funding facilities. But the ultimate prerequisite of a mature capital market was a responsive set of legal arrangements and proper institutions.

In evaluating the overall performance of finance sector in planned economy era, a number of problems can be revealed: decades after declaration of Republic, capital had remained as the scarcest factor of production in the economy. Due to the accelerated growth in industrial investments, state and private entrepreneurs always demanded resources from capital markets; therefore placement of deposits as loans had never been a problem for commercial banks. Rapid monetization of economy required loanable funds more than ever. But the problem was in the collection of funds from households as (preferably long term) deposits. In such an unstable economic environment, households preferred to remain liquid or seek for safety in more "concrete" investments like immovable or housing. Negative real interest revenues that have occurred in early 70's alienated the retail customer further to involve in capital markets. Solvency problem was another fact of planned era economies; except a few corporate banks and public banks, rest of the market remained highly speculative and insolvent.

Contrary to the expectations of National Solidarity Government, industrial and commercial activities concentrated increasingly in urban areas instead of evenly dispersing into all regions of Turkey. Banking sector was no exception: At the end of 1972, 21,3% of the total branch offices of Turkey was operating in Istanbul, 7,4% in Ankara and 4,4% in İzmir. 45% of all branch offices were accumulated in areas whose population was more than 100.000 (Zarakolu, 1974:75). This was another indicator of the widening gap between rich and poor on regional basis.

It is already stated that monetary discipline had started to be loosened by 1971, yet, authorities somehow had managed to repress price increases as to be less than 20%, and high growth rate could be sustained. Started from 1977, monetary stability had been lost forever. Sudden increase in oil prices worsened the situation and in 1979 and 1980 total export revenues of Turkey even could not cover the expenses of oil imports (Şahin, 2000:173). Oil shock was devastating even for developed countries, thus it also affected international financial markets deeply. Consequently, Turkey had difficulties in borrowing from developed countries and international monetary institutions. Towards 1980, inflation rates exceeded 60% and growth rates fell to 1%. Foreign currency reserves had eroded and due to depreciation of domestic currency, import of capital goods became almost impossible. Industrialization policy models of Turkey were provoking foreign currency demand but providing no supply. As a result, it was impossible for policy makers to insist on long-term economic plans then the era of planned economy came to an end. The social strains that have been enhanced by economic inconvenience, lead the nation into a phase of chaos, ending up with the coup d'état of 1980 and an upcoming radical economic transformation.

CHAPTER 3

RISE OF ECONOMIC LIBERALISM AND CORPORATE BANKING IN TURKEY

3.1. Introduction

The year 1980 marks a turning point in modern economic history of Turkey. During 1980's we witness step by step liberalization of the Turkish economy. The process of trade and capital account liberalization effectively started with 24 January measures, gained momentum in1983, and reached its peak in August 1989. First section of the chapter deals with the first segment of liberalization process, which lies between 1980 and 1989. This section highlights essential features of this great transformation of Turkish political economy, by means of real economy and finances separately, covering their reflections in political and social domains. We examined also how Turkey's patrimonial state tradition is modified by, and in return conditioned, the nature of Turkish economic liberalization.

In the next section, building on previous one, we focus explicitly on the post-1989 period in Turkey, a period that constitutes the final stage on the path to a full and drastic capital account liberalization following the major steps taken in that direction in 1980 and particularly in 1983. In other terms, the transformation of 1989 is complementary to actual orientation of post-1980 economy. The premises of post-1989 economy, then, are key terms to understand the true dynamics of contemporary problems in the Turkish economy and future prospects. The emphasis is made on structural defects, vulnerabilities and risks of neo-liberal transformation of the system.

The last two sections of the chapter focus on the Turkish banking sector, which we consider as the best representative of Turkish financial market. On the one hand, the issue of regulation and supervision related to banking sector is presented with its main features, while on the other, highlights of the peculiar structuring of Turkish banking system is provided in order to contribute our central discussion of how banking sector affects to social and political structures of contemporary Turkey. Complementing the previous chapter, present one is the second pillar that provides necessary advance information in order to comprehend rather complex relationship between finance, bureaucracy and politics.

3.2. 24 January Measures

3.2.1. Political and Economic Outlook

An economic overview of late 1970's can be summarized as follows: (i) beginning from 1974, primary and secondary oil price shocks significantly augmented importation expenses of Turkish economy, (ii) dependency of imported goods did not match with a proportionate foreign currency influx, (iii) currency and energy shortage crippled the expansionary potential of Turkish industry, hindering also social investments, (iv) aggregated demand in the economy did not diminish in accordance with decreasing supply levels and consequently wheel of inflation run up three-digit levels (v) currency reserves dropped below critical levels and that situation worsened Turkey's credibility in global financial markets, (vi) social inconveniencies of worsening income distribution and escalating social unrest (Kılıçbay, 1992:163-164, Şahin, 2000:89-93, Öniş, 1998:183-196).

Consequently towards the end of 1970's, Turkish economy was upside down and it has proven disastrous for Ecevit government, who lost the elections in October 1979. Demirel won the elections and became prime minister. Demirel's liberal economic ideology granted him full support of national bourgeoisie and businessmen, but more critically, appreciation of US Government. In return, "orthodox" international communities offered financial aid, generous systemic adjustment loans and technical support to Turkish economic policy-makers. But another sacrifice should have been made before full economic and political support of the U.S is requested: A new economic administration, totally disregarding political sensitivity but adopting a technocratic and authoritarian type of economic dirigation was in charge. Demirel's appointment of Turgut Özal as his principal economic adviser was harbinger of this new era. Özal, a technocrat who has failed thus far as a politician, was expected to introduce an economic policy just in line with the subplot that is described above.

During the months that followed, Özal was given a free hand to correct the country's economic problems. That meant bringing down inflation by freeing prices, cutting back on consumption by holding down on wages, increasing exports, and signing agreements with foreign creditors to postpone debt repayments which amounted to about 18 million USD (Ahmad, 1993:184).

Özal was to claim that it was he who, well before the coup, had weaned the generals away from their attachment to the early republican economic model of state direction and self-sufficiency during the extensive briefings, which had accompanied the stabilization measures of 24 January 1980. But somehow later Özal never managed to implement the new, plainful monetarist doctrines that he preached, while under Kenan Evren, junta leader, strict fiscal housekeeping kept the country to its financial targets. Still Özal's freewheeling style in conducting the economy provided swiftness in implementation of his policies. It was right after the first after-coup elections that proclaimed Özal again the autocratic commander of economy.

The military coup of 1980 can be interpreted as an attempt to provide a period of tranquility Özal was seeking, marked by an absence of politics and *dissent* in all forms (Ahmad, 1993:179); or as Korkut Boratav (Boratav, 2003:156) puts it, a bourgeois counter-attack to the crisis of 1977-1979. The response was the subjugation of labor market to bourgeoisie, through legislative and militaristic manners. Militarist government acted loyal to the council of UCC (The Union of Chambers of Commerce) and CEUT (Confederation of Employers' Union of Turkey), revealing its intentions of implanting a new bourgeois ideology in Turkish political economy. In other terms, 24 January measures were nominated to be the constitution of neo-classical economy in Turkish Republic and this nomination was not a civil decision: the adoption of neo-liberal model was a result of top-down and externally induced restructuring. National Security Commission effectively arranged the rigid conditions necessary for implementation of 24 January measures: Politicians who were held responsible for corrupting the system were prosecuted and banished from politics. Strikes were proscribed and workers were ordered back to work. NGO's with very little exceptions were closed down or efficiently been kept out of political arena. Press, which had been already under severe suppression, totally lost its independence. Universities cleared out of politically extremist thought and teachings. In short, vast and deep changes had been made in virtually all aspects of life, aside the new economic stabilization programme that firmly handled by Özal's ultimate power. Martial Law government showed no tolerance to any opposing view to be announced publicly. Özal's cabinet also did not attempt to amend the undemocratic laws inherited from the military government. Özal, personally, had little interest in advancing the democratic process. His philosophy was summed up in the words: "First, the economy, then democracy" (Ahmad, 1993:197, Öniş, 2004).

Strong backing from Washington was another key element in the success of the junta, with the United States anxious to prove to weak-willed Latin American governments that its austerity-led IMF packages could fix inflation-ridden economies. During those years Turkey was receiving nearly one billion USD a year of American assistance, third in the world after Israel and Egypt. Within months of the coup, new American and British credits were approved. Before a year had passed, the influential banking magazine *Euro-money* selected the then deputy Prime Minister Turgut Özal as "Man of the Year" and Turkey as "Country of Year" (Pope&Murray, 1997:151-152).

Beyond the debate on whether it was successful or not, 24 January Measures were of great importance for being a turning point, changing course of Turkish economy. 24th of January is more than initiation of an economic stabilization programme; it denotes a fundamental turning point in the implementation of mixed economic system in Turkey. Subsequent paradigm shifts in Turkish economy between 1923 and 1979 came to an end by a last and ultimate decision: a strict and absolute promise of faith to regulatory power of free market and full integration to world markets. The integration involved opening up of economy to the forces of world market and abandon the country's dependence on the protected home market and import-substitution industries. The argument was that foreign competition would force industry to become efficient, to look outwards and produce quality goods that would be marketable abroad. Everyone was supposed to benefit, especially the consumer who would have high quality goods with lower prices. Another principal reform was the state's decision to withdraw from production where its role had been crucial after 1960 and to concentrate on the country's infrastructure, its energy needs, its roads and communications, and its dams. But the state's withdrawal and privatization was limited by the lack of private capital to purchase state-owned enterprises, which continued to play a crucial role in the economy.

The coup d'état of 1980 significantly contributed to stabilization of the economy for the first two years. Tight monetary and fiscal policies prevented further escalation of price levels and money supply: having been running at over 50% in late 1970's, inflation reached a level of over 100% in 1980, then fell sharply to an average of 33,2% in 1981 and 1982. For most of the years of martial law consumer inflation was about 35%. The balance of trade improved markedly as exports started to rise. However, the expectations were no match for the results, at least, for the majority of people. The wage policy of 1980 government marked by a sharp decline in wages became the cornerstone of the structural change. Real wages declined by about 45% after 1980 while unemployment hovered around 15% throughout the decade[43] (Boratav, 2003:163). That was the social cost of IMF-driven stabilization programme. Unavoidably, the pattern of income distribution was altered in favor of the rich at the expense of those in middle and lower classes.

In technical terms, the agenda of 24th January measures primarily targeted to realize a sustainable solution to two concomitant problems: high inflation and weak economic growth, involving both short-term stabilization and long-term structural adjustment measures. Main traits of the stabilization program can be summarized as follows: Turkish Lira was devaluated by 32,7% against the dollar and exchange rates were set up daily. SOE's were allowed to set their own prices, support policies were limited in strict sense; government subsidies were abolished; foreign trade liberated, foreign direct investments were encouraged by all means, restrictions on imports gradually abolished; export incentives were generated; foreign currency trade liberated; flexible interest rate policy started to operate.

By those IMF-driven policies, all remnants of planned economy were erased from the new system, as well as notions of social equality and distributional fairness. Turkish economy was re-organized in order to conform to global inclinations of world economy, responsive to the *rules of the market*: Prices should be determined by autonomous motions of demand and supply in competitive market conditions.

[43] If unofficial figures are to be believed, unemployment rate was amounted to 20% during the first half of 1980's.

Equilibrium of demand and supply should determine consumption, investment and productions decisions. Short-term deviations from equilibrium prices should be restored through the markets own dynamics. As a result of those policies, percentage share of international trade in gross national product gradually increased from 4,2% in 1980 to 13,5% in 1997. Nevertheless, although a major aim of the programme was to attract foreign direct investments into the economy, they remained limited both in absolute terms and as a proportion of GNP. Moreover, in contrast to attractiveness of high real interest rates, the overall savings ratios exhibited a declining trend: Share of savings in GNP dropped from 19% in 1974 to 16,6% in 1984 (Öniş, 1998:15-27).

As a profound impact of monetarist stabilization policies a significant income transfer occurred from small firms that are oriented to internal markets and wage earners towards large manufacturing firms, financial intermediaries and holders of financial assets in general. A negative growth in real wages has been registered during the period. That policy eventually would slow the inflation down, stimulate investments by cheaper labor force, enhance the price competitiveness of exported goods by lowering costs and invoke surplus products to sell abroad. In popular expression, that "tightening the belt" policy, arguably been successful in keeping aggregated demand in control and helped to control the inflation. Nevertheless, the application resulted in deepening the income inequality between highest and lowest strata of society, especially in favor of a newly arising class: the bourgeoisie of high finance (Kılıçbay, 1992:167; Kepenek and Yentürk, 2003:201; Öniş 1998:24).

3.2.2. Banking and Finance

The financial liberalization of the post-1980 period started with a heavy financial repression. Financial placement possibilities were few, credibility of financial instruments was weak and personal investment opportunities were extremely risky. Interest rates were fixed and were determined by central authority. Most of the times, real interest gain from deposits was negative since inflation rate were higher than fixed interest revenues. Financial units and retail investors could barely survive in such an environment, so the government could not help but free the interest rate, which was a risky decision. The liberalization of interest rates in July 1980 unleashed loan rates to

80%, a level that was almost unaffordable for most debtors. Smaller enterprises could not benefit from loan facilities in the market and as a result, they were under. Big conglomerates met the challenge by purchasing banks for their own so that they could borrow from their own resources, without paying commission to any bank. Due to the oligopolistic structure of the banking sector, major banks were negotiating on setting a ceiling to the interest rates of deposits. Nevertheless, lesser banks and money brokers were competing freely, promising enormous interest rates. This unbound competition lead to a massive "bankers scandal" in 1982 when thousands of middle-income families had been swindled of their savings by money brokers who had been allowed to exploit free interest rate policy. Being discredited by the event, Turgut Özal was forced to leave the government (Ahmad, 1993:189; Boratav, 2003:151-152).

Fringe bankers' scandal was a result of unsystematic and arbitrary implementation of financial deregulation. At the first three years of the process, the emphasis was on the liberalization of the financial sector. The liberalization process of Turkish security markets was launched by the enactment of Capital Market Law in mid-1981. Creating competition among banks has been seen as a basic tool to develop financial markets, but a rapid release of control on deposit interest rates and credit allocation resulted only in chaos and corruption. Starting from 1983, however, the emphasis turned on the establishment of regulatory financial institutions and setting up the legal framework of financial markets[44]. In this regard, Capital Market Board was established in 1983 in charge of regulating securities market in Turkey[45]; secondary market operations were regulated by a decree and Istanbul Stock Exchange was opened in 1986. A new banking law was legislated in 1985[46], also aiming to improve structural weaknesses of the banking system. Later on, in 1986 Interbank Money Market was established then the Central Bank started to moderate open market operations the following year. At the same time, new financial instruments were

[44] The legal regime governing the Turkish capital markets consisted of the Turkish Commercial Code promulgated in 1956, the Capital Markets Law (CML) promulgated in 1981 and various subordinate laws, decrees and communiqués issued by Capital Markets Board (CMB).

[45] The CML created the CMB and set out provisions intended to ensure the proper functioning of the Turkish capital market and protect investors in the market. Among other things, it governs the issue and sale of capital market instruments to the public and the activities of market intermediaries, exchanges and other organized markets.

[46] The previous banking law entitled Banks Act no.7129, was promulgated in 1958.

introduced. Financial derivatives (options, futures, forwards, swaps), credit cards, leasing and factoring services and the like, became alternatives for traditional financial instruments.

In an outlook, last developments in financial sector and increased variations in financial instruments helped the monetization of economy but improved financial deepening very little[47]. Furthermore, this unsystematic expansion of financial sector has paired with absence of a proper regulation mechanism and gave way to a convenience for moral hazard. Moreover, excessive market risks that were arising from macroeconomic instability damaged balance sheets of banks, invoking dead loan problems. Reluctant to open their resources to use of real economy, banks urged to seek new investment areas, less risky and more profitable but economically functionless placements. In other terms, on the one hand the way to financial expansion did not progress in coordination of legal and institutional structures; on the other hand financial expansion did not contribute to real economic progress as expected due to unstable economic conditions.

3.3. From 1989 to Present

3.3.1 Political and Economic Outlook

Political climate of 1990's was fundamentally different than 1983-1989 period. Contrary to 1980's, 1990's general elections proceeded like a cycle of trial-and-error. Almost all combinations of single-party and coalition governments had exhausted in a decade: In 1991, the era of coalitions started with DYP-CHP coalition, which somehow survived until 1995. Then coalition of ANAP-DYP (ANAYOL) was formed and lasted only 6 months. Succeeding RP-DYP (REFAHYOL) coalition did not exceed 1 years of governing as well. Then the ANAP-DSP (ANASOL) coalition managed to stand on power until 1999 and converged into ANAP-DSP-MHP coalition after elections.

[47] See appendix D for temporal data on financial deepening of Turkish economy in different time periods. As the percentage shares indicate, 1980's do not exhibit a significant financial deepening with respect to prior periods. The share of deposits to GNP is improved but total assets and total loans over GNP remained within the same margins of 1960 and 1970's indicators.

Five governments for ten years were too much for stable and consistent economy governance, for economic programs require long term implementing bodies to be effectively undertaken. In the context of a highly fragmented party system, successive coalition governments of 1990's lacked the capacity and incentives necessary for undertaking financial and fiscal stabilization. Nonetheless, IMF was assertive for initiation of a number of targets and precautions related to budget, monetary policies and various structural reforms. In July 1998, the Staff Monitoring Program was agreed upon with the IMF. A tight fiscal policy, an incomes policy aligned with targeted inflation and monetary and exchange rate policies formulated in line with decreasing inflation were the basis of disinflation program (Öniş, 2003:9). The economic program that is implemented was originated from major external pressure, namely IMF and EU. This, however, does not imply that all coalition members deeply committed in reform programs; serious disputes were made on reform elements especially in situations that jeopardize coalition members' future electoral prospects.

Early elections of 1999 gave birth to a three-party coalition and it was considered as a fortunate occasion for legitimacy of economic decisions, since the coalitions covered more than half of voters. At the same year, a stand-by agreement was signed in December, holding the same basic premises with the previous stabilization programs. The stand-by agreement under responsibility of coalition government was ambitious: aiming to bring consumer price inflation down to 25% by the end of 2000, 12% by the end of 2001, and to 7% by the end of 2002. Backed with full support of IMF, Turkey took another chance to keep the pace of economic stability. An optimistic climate over expectations has prevailed until the second half of the year 2000. However in time, it became apparent that the coalition government lack cohesion and its commitment to the economic program were half-hearted. This, in turn, progressively undermined investor confidence and constituted one of the underlying sources of speculative attack and massive outflow of short-term capital. The result was a new economic crisis that broke out in November 2000. In February 2001, crisis was resurrected by a severe dispute at the top of the government. The result was the ultimate collapse of balance of payments, nearly 100% devaluation of domestic currency and most important of all, irreversibly turning of optimistic economic expectations into sour. The last economic recovery program was declared in May 2001, but was not seriously followed as a policy guideline.

Following the general elections held in November 2002, economic and political agenda was determined mainly in the framework of Copenhagen Summit, which was held in December 2002 and the efforts of Turkey on getting full membership for European Union (EU). Besides, there was an air of uncertainty and unrest in economic expectations due to the increase in the possibility of military intervention to Iraq. Government's position was not neatly displayed on that issue and this political ambivalence led to strain in markets in the first months of the year. The determination on the continuation of existing Stand-by agreement comprising 2002-2004 period through strengthening it, was announced by the "Intention Letter on Fourth Revision" which was submitted to the International Money Fund (IMF) on April 2003. Struggle against inflation, reducing the debt burden and sustainable rapid growth were determined as main targets in forming the policy of economic recovery. In general, uncertainties in markets decreased and expectations improved in 2003 parallel to the lessening of internal and external political worries and determined implementation of economic program. Developments gained during the establishment of the macroeconomic stability affected basic economic indicators positively. Economic growth seen in 2002 also continued in 2003 after the recession experienced in 2001.

In spite of general optimistic climate related to the overall recovery trend in the economy, anxiety of a new crisis latently prevailed. Market participants and retail investors are now well aware of political authorities' inability to tackle with regulatory issues in financial markets and crises that broke out one after another draw attention specifically to the banking sector.

3.3.2. Banking and Finance

The bitter experience of 1982 when lots of retail investors and small banks suffered, taught the economic policy makers to be cautious for volatile nature of free interest rates. Importance of supervision and regulation also proved apparent. But even if regulatory agencies started to operate in the economy during the second half of

1980, little control could be achieved over the circulation of money in the system. Consequently, CB was empowered to re-acquire the control over interest rates and held them fixed until 1988. Nevertheless, that decision was an unfavorable one for philosophy of free market then in 1988, interest rates were released again to find their market equilibrium. That could be considered as a preparation for second episode of financial liberalization.

The 1989 benchmark was the second turning point in economic policies of the post-1980 period in terms of both distributional implications and macroeconomic consequences. In August 1989, Turkey liberated capital movements. Then in 1990, Turkish Lira acquired full convertibility. With that decision, role of Central Bank expanded, as its duty of maintaining of monetary balance hardened. Furthermore, due to increasing public sector deficits at nearly critical levels, Treasury demanded Central Bank funding to cover its interest expenses. Knowing that extending loans to Treasury is inflationary, Central Bank administration refrained from going into operation[48]. This caused a tension between Treasury and the Bank but the Bank could barely resist to insistent demands of political authority since its status was not autonomous in true sense. From Özal cabinet to onwards, governments used Central Bank as a printing machine to supply money for trivial needs. Indeed, Central Bank (as well as Treasury) has always been extremely prone to political meddling and interference, and it is only very recently that the Central Bank achieved legal independence in a degree[49]. That was a critical frailty of financial economy, for monetary authorities' duties as maintainer of monetary balances were hardened after full capital liberalization.

After full liberalization of the capital account in 1989, exposition of domestic economy to unstable and volatile short-term capital flows has increased. Since 1989, the Turkish financial system has been under pressure of the international speculative centers that constitute the main reason for volatility and unpredictability of business cycles. The short-term capital inflow, so-called "hot money", led to increased fragility of the financial and external position of the domestic economy. Arbitrage-seeking and short-term capital flows constituted a rising share of total capital movements from both

[48] Central Bank was forced to open advances to the Treasury in financing deficits until 1997 until a law prohibiting the extension of such advances beyond a month has passed.

[49] The modified Central Bank Law enacted in the first quarter of 2001.

residents and nonresidents and this phenomenon has started to transmit a serious factor of instability to the economy. As speculative transactions took place, even monetary authority lost its independence and took on a passive role because little control could be exerted on flawless money circulation in domestic markets. Two critical components of monetary policy, interest rates and currency rates, had gone out of control. The economy is trapped into the vicious cycle of high interest rates and overvalued domestic currency (Balkan and Yeldan, 2002). At the same time, macroeconomic imbalances became increasingly pronounced due to expansionary public sector policies after 1989. These imbalances resulted in a high inflation around 60-70% in a year and weakening of external balances giving a way to 1994 crisis.

The nature of 1994 crisis was a balance of payments crisis, originating mainly from capital account, caused partly by domestic imbalances. But the crisis had a significant external dimension and that was over-dependence on fragile short-term capital inflows following premature capital account liberalization. Last decade of Turkish economy is indeed characterized by domination of international finance over domestic economy. The fluctuations of capital movements brought about the risks of financial crisis, stagnation, production loss, inflation boost and unemployment. As a result of that increasing market fragility and political mismanagement, the first major macroeconomic crisis of the era broke out with monetary turmoil in the first quarter of 1994. It lasted more than one year, causing a drastic contraction in the economy-wide output and high levels of inflation. Turkish Lira depreciated by 60%, economy recorded a negative growth rate of 6%, Central Bank lost USD 3 billions of its international currency reserves and three small banks collapsed due to their short foreign exchange position. Total assets of banking system receded to USD 51,6 billion from previous years' total of USD 68,6 billion. Total working capital of the system, which represents the safety line for regular functioning of banking sector, dramatically shrank to USD 4,3 billion from USD 6.6 billion (Tartan, 2003:31).

As bitter experience of 1994 showed, in an environment of excessive financial deregulation, a malfunction in financial markets spread out to all segments of the economy. It also proved that not all capital flows are equally beneficial from a long-term development and sustainability point of view. Although the Government managed to overcome the severe results of crisis in time, precautionary motives of the government were superficial and did not involve a thorough analysis of flaws of the financial market.

In Turkey, most significant progress that has been made in financial deepening was in early 1990's: The relative economic size of the banking sector in the economy-wide output of the country, steadily increased to 56% in 1993 from 28% in 1980; but with little help from real sector productivity or national income growth (Yıldırım, 1997:16). Economic indicators reveal that credits granted to the corporate sector did not show a pattern of progress at the same time period. On the contrary, share of credits in the consolidated balance sheet decreased over the early-1990. Boratav and Yeldan (Boratav&Yeldan, 2001) assert that Turkish financial deepening was a result of an unregulated opening of domestic financial market[50]. Since foreign exchange rates were liberated, foreign exchange deposits became a popular saving instrument for households. Then for companies, high interest bearing government bonds were promising high return with almost no risk. Thus, it can be stated that the main channel of financial deepening in Turkey in the 1980's and 90's have been the public sector securities and the foreign exchange deposits. Public Sector's borrowing requirement pulled the interest levels high and made treasury bills highly attractive. As a result, the weight of the public borrowing instruments held by the banks increased substantially. Their securities portfolio outweighed loan portfolios, whose composition was also about to change: the banks increasingly diverged from industrial credits towards relatively less risky consumer credits. In other words, throughout the course of these events Turkish banks were getting increasingly detached from their conventional functions. They began to function as institutional rentiers, making huge arbitrage gains when conditions were appropriate, but becoming extremely vulnerable to exchange rate risks and to sudden changes in the inflation rate. In their new functions they gradually emerged as the dominant faction within business groups to influence and manipulate economic policies (Boratav&Yeldan, 2001:8).

As the commercial banks turned away from their conventional duties and adopted arbitrage-seeking as major area of business, fragility of the sector has increased proportionally. There exists a certain consensus that the 2000 and 2001 crises in Turkey were essentially banking crises, although being closely related to

[50] For detailed information see Boratav and Yeldan, 2001, Page: 56

underlying fiscal imbalances. November 2000 crisis was primarily a crisis of the private banking sector whereas the February 2001 crisis stemmed from the disequilibria in key components of the public banking sector. Thus, a long-lasting failure to properly regulate the banking sector was at the heart of both crises, a failure that reflected also the deficiencies of the domestic political system.

3.4 Regulation and Supervision in post-1980 Banking

Hutchinson and Mellor identify the key defining feature of the economy as its formalization through legalized money systems (2004:1). However, we have previously stated that first three years after 1980 Turkish economy experienced a rush of irregular and arbitrary liberalization. Fringe banker scandals were instrumental in reminding the necessity of an effective regulation mechanism, which would operate particularly in the banking sector. The first sign of regulative move of the state over banking system was a system of quarterly reporting that is set up by Central Bank in June 1980. The system enabled timely warning of banks in case of financial difficulties. This reform was a start toward making banking operations more transparent. After 1983, Central bank enhanced its supervisory functions, but ineffectively due to lack of a proper legislation specifically dealing with banking sector.

Most recently, the new Banks Act No.4389, which brought substantial differences from the previous Act no.3182 (issued in 1985), had taken effect on June 23rd, 1999. Prior to the changes in the Banks Act, the Undersecretariat of the Treasury and the Central Bank had been the two main regulatory and supervisory bodies in the banking sector. With the new Act, the *Banking Regulation and Supervision Agency* (BRSA) was formed, holding financial and administrative autonomy. The mission of the Agency, as reported in the mission statement of the body, is to safeguard the rights and benefits of depositors and to create the proper environment in which banks and financial institutions can operate with a market discipline, in a healthy, efficient and globally competitive manner, thus contributing to the achievement of long-run economic growth and stability of the country.

With the establishment of the BRSA, the *Savings Deposit Insurance Fund* (SDIF), which had been under the authority of the Central Bank, began to operate under the administration of the BRSA. However, with the enactment of Act No. 5020 on December 26, 2003, the management of the SDIF was separated from the management of the BRSA.

3.5 Rise of the Corporate Banking in Turkey

In an overview, all the economic patterns in the 1980's favored the growth of large economic entities at the expense of the small. The argument was simple: large companies were more efficient, richer and more powerful and therefore better able to compete with foreign rivals or negotiate more strongly with foreign governments (Ahmad, 1993:205-206). Also in case of economic crises, small-scale enterprises and retail investors were damaged more heavily compared to large and powerful conglomerates, which have the opportunity to hedge their risks away. The same principle can also be applied to the banking sector and this is how group banking came into being[51]. Turkish conglomerates ventured into banking one after another[52].

Group banking was supposed to facilitate the resource needs of industrial conglomerates and also would help the affiliated banks to evade from major market risks. In other terms, productive and industrial banners would be carried in the same corporate body to maintain the sustainability of profitability and growth. This convenience would also reflect to the economy in general and serve to nation-wide economic well-being. However, those expectations did not materialize: in contrary to expectations, group banking did not contribute to stability of the banking system. Group banks had an advantage in hedging market risks in the system but since capital structure of banking did not improve much, banking activities had been always performed on the sharp edge. Volatile nature of financial capital obliged the banks to act cautiously in investment decisions, but especially group banks had overconfidence

[51] The term typically refers to a group of companies under common control that engage exclusively or predominantly in financial services in two or more financial sectors such as banking, securities and insurance.

[52] Appendix G exhibits the group engagements of Turkish private banks in a timeline comprising Post-1980 period.

in taking risks in anticipation of high revenue in short term. The reckless attitude of group banks misguided smaller-scale banks to take risks as well and further increased the fragility of sector. In other terms, Group banking did not contribute to overall quality and effectiveness of banking services. Throughout the 1980s, neither proportion of aggregate bank deposits to GNP nor their relative share in the balance sheet of the banking sector increased. On the contrary, percentage shares of total deposits dropped constantly between 1985 and 1990[53]. This can be considered as a token of discredit to the financial system. Developments in the loan side exhibit distrust to real sector: The percentage share of net credits volume dropped from 28,9% in 1970 to 20,2% in 1985 and never exceeded 26,8%, in spite of ongoing financial broadening and deepening[54].

Another problem arising from group engagement of corporate banks was moral hazard. Focused on macroeconomic benefits of grouping, policy makers disregarded the convenience of the system to illegal use of bank resources. Although the amendment in the Banks Act no.3182 put some limitations to extend loans to a bank's own affiliates, the related article of the Law was not properly exercised due to lack of effective supervision. Then banking operations quickly evolved as a means of corruption and illegal gains[55]. Then the moral hazard itself became the major cause of liquidations of private banks especially during post-1989 period.

Due to financial mismanagement, moral hazard and weakened capital structure, 22 private banks ceased to function, either by merging or liquidation after being taken over by SDIF. Losses in banking sector have intensified after consecutive economic crises of November 2000 or February 2001: Just within the year 2001, 8 banks were acquired by SDIF. Within the framework of restructuring the banking system, some necessary steps were taken to ease the ways of merging, acquisition and dispose of the banks under SDIF: 5 banks under SDIF (Egebank, Yurtbank, Yaşarbank, Bank Kapital, and Ulusal Bank) were merged under Sümerbank and 2 (Interbank and Esbank) were merged under Etibank. Bank Ekspres, Sümerbank and Demirbank were sold. Garanti Bankası merged with the Ottoman Bank. Those developments indicate an

[53] Source: Turkish Banking Association

[54] Source: BRSA Statistics and Reports Department

[55] Moral hazard issue will be discussed in broader terms during the chapter three.

increasing concentration in the banking system and prove survival of the fittest principle hold true. While small-scale banks became more susceptible to market risks merging made the banks sounder in a single entity. Large ones, on the other hand, were not only powerful in economic sense but also could use excessive political power over the economy[56]. Especially the conglomerates that possessed industrial companies, media companies and banks within the same corporal ownership, acquired a political power almost equal to their economic capabilities.

In summation, the emergence and prevalence of group banking deeply affected power relations within the banking sector but did not contribute to overall effectiveness and stability of the sector. On the contrary, new practices of corruption they generated and their confrontation with law resulted in heavy losses borne by Turkish public.

[56] A vivid example of that situation is Pamukbank of Çukurova group, which will be discussed in length during chapter three.

CHAPTER 4

SOCIO-ECONOMICS AND POLITICS OF TURKISH BANKING SECTOR

4.1 Introduction

As can be deduced from our earlier statements, modern economies are built upon two pillars: Real economy and financial economy. Mutual existence of those two pillars is a sort of symbiosis: real economy is productive and necessary for economic growth, whereas financial economy is a pool in which the monetary value of the surplus extracted through production is accumulated for further productive uses. Financial economy also stands for investment purposes of households for their personal welfare. Financial markets help economic units to manage their liquidity, meaning that they allow economic units to bridge the gap between cash receipts and cash expenditures. Same is the primary function of commercial banks. But banks have also right to make their own investments in the markets and manage their own portfolios, as in any unit in the economy.

So far we tried to document that Turkish banks have ignored their primary function as market mediators, by playing as speculators, manipulators and arbitrage-seekers themselves. In other terms in Turkish economy, finance has become not only a means to an end, but an end in itself. We drew the outline of how Turkish banks have been “banking on government”[57] and diverged further from social benefits; in this chapter we went through the details of this divergence. The development of retail banking facilities is also analyzed according to its effects to the society, especially by its contribution to pecuniary emulation in consumption patterns and new forms of social status that is brought within.

[57] Akçay, C. The Turkish Banking Sector Two Years after the Crisis: A Snapshot of the Sector and Current Risks, in The Turkish Economy in Crisis, ed. Öniş and Rubin, 2003

In this chapter, we also briefly presented mainstream theoretical perspectives on ethics of money, social implications of money relations and politics of money and banking. We commented on perversions within the banking system and interpreted the regulatory mechanisms that were positioned by the state to counteract these perversions. The emphasis is made on moral corrosion that bank owners have been involved since 1980, and we tracked it in line with bureaucratic restructuring of financial market. The elusive triangle of banks, bureaucracy and politics will thoroughly be analyzed in this context.

In the last section of this chapter, we dealt with the results of those observations in a broader scope, involving the premises of classical Marxist socio-economic doctrine and theories of world-system analysis. We underlined the difference between systemic cycles of accumulation as experienced in most Western economies and *sui generis* Turkish case in a comparative perspective.

4.2 A Historical Look to the Socio-economics of Money and Banking

4.2.1 Money and Usury in Ancient World

Money systems based on banking (e.g. stored grain) or commodity money (e.g. shells, camels, silver) are around 5,000 years old, although coins came later, around 650 BCE (Davies, 2002). Banking and notional accounting emerged in Mesopotamia around 3000 BCE and a sophisticated banking system based on grain was developed in Babylon and Egypt. These systems did not use specie (e.g. gold, silver) or coin until much later. Europe on the other hand, had coin and commodity money for more than a thousand years before it had a banking system (Davies, 2002). Large-scale banking had became common after the middle of the thirteenth century, but their true rise over economy emerged within the commercial revolution, around seventeenth century. Banks played a vital role in this expansion; their growth necessarily accompanied by the adoption of various credit facilities, expanding and altering the traditional content of money definitions.

An explanation of the functions of money is a must starting point for any theoretical discussions about the subject, and if we attempt to do this by tracing back a historical perspective we must go back to Plato's meager references to the question of money. In the *Republic* he notes the need of money as "a symbol, for the sake of exchange"; and in *Laws* he remarks briefly that money "reduces the inequalities and immeasurability of goods to equality and measure[58]". Money, then, is a medium of exchange and a measure of value (Monroe, 1966:5). Money is put to the question by Aristotle as well, in Ethics he explains that in order to ensure proportionate equality as justice requires, some kind of measure must be provided in order to enable us to equate values. Later in the same chapter, he notes a third function, to which Plato had not referred, realizing money's use as a store of value[59].

Among the ancient philosophers the belief was common that gold and silver had a most baneful influence on human race, which to the greed that they engendered could be lead to immorality and injustice. Aristotle, especially, devotes considerable attention to that point. For him, money has a natural tendency to serve to man's desire of assuming money to be wealth. It has also, in this way, given rise to the evil of usury, which he regards as the most hated kind of trade[60] (Monroe, 1966:6). As their Greek predecessors, Romans shared the unfavorable opinion concerning the influence of money on mankind, as a means of avarice and crime. No other function of money except that of a medium of exchange was considered moral in Roman economic culture. In summary, the thinkers of the ancient world recognized the money's service as a medium of exchange and measure of value. Money was believed, however, to have had a bad influence on mankind, though it facilitates association, and hence, life in the society (Monroe, 1966:10).

4.2.2 Money and Interest in Modern World

In modern economics, three functions of money are emphasized: money as a unit of exchange; money as a unit of account; and money as a store of value. However, we must depart a step further from that classical textbook definition to fully

---

[58] Plato, *Republic*, bk. ii, p.242; *Laws* bk.xi, p.489

[59] Aristotle, *Ethics* bk.v, chap. 8; *Politics*, bk. ii chap. 9

[60] The division between money-based activities and the whole breadth of human creative labour goes back to the Greeks with the distinction between *oikonomics* (production for the household) and *chrematistics* (trade for profit). Oiconomics was regarded as a basic human activity for a sustainable life, but the latter, chrematistics was despised for being a sinful activity (Hutchinson and Mellor, 2004).

understand the specific functions that money can perform within the social sphere. Money can be related to every social phenomena and inextricable links can be drawn between money, the individual and ultimately, modern society in its totality. In these terms, George Simmel proposes a study on money that transcends the purely economic approach.

According to Simmel, neither one, society or individual, is thinkable without the other. Individuals engage with one another and thereby constitute the social. Society is not just the sum total of individual acts, but refers to individuals interconnected through social interaction (Deflem 2003:69-70); and economic exchange can best be understood as a form of social interaction (Simmel, 1907[1990]). When monetary transactions replace earlier forms of barter, significant changes occur in the forms of interaction between social actors. As a measure of equivalents, money permits to an area of convention on how things worth. It thus helps promote rational calculation in human affairs and furthers the rationalization that is characteristic of modern society. When money becomes the prevalent link between people, it replaces personal ties anchored in diffuse feelings by impersonal relations that are limited to a specific purpose. Thus, abstract calculation invades areas of social life, such as kinship relations or the realm of esthetic appreciation, which were previously the domain of qualitative rather than quantitative appraisals. Over and above its economic functions, it symbolizes and embodies the modern spirit of rationality, of calculability, of impersonality (Coser 1977:193-194).

The fact of economic exchange confers upon the value of things something super-individual. It detaches them from dissolution in the mere subjectivity of the agents, and causes them to determine each other reciprocally, since each exerts its economic function in the other. The practically effective value is conferred upon the object, not merely by its own desirability, but by the desirability of another object. Not merely the relationship to the receptive subjects characterizes this value, but also the fact that it arrives at this relationship only at the price of a sacrifice; while from the opposite point of view this sacrifice appears as a good to be enjoyed, and the object in question, on the contrary, as a sacrifice (Simmel, 1900).

Simmel is concerned with money as a symbol, and what some of the effects of this are for people and society. In modern society, money becomes an impersonal or objectified measure of value. This implies impersonal, rational ties among people that are institutionalized in the money form. For example, relations of domination and subordination become quantitative relationships of more and less money -- impersonal and measurable in a rational manner. The use of money distances individuals from objects and also provides the means of overcoming this distance. The use of money allows much greater flexibility for individuals in society -- to travel greater distances and to overcome person-to-person limitations. That's why in Simmel, the metropolis has always been the seat of the money economy:

> "The modern metropolis, however, is supplied almost entirely by production for the market, that is, for entirely unknown purchasers who never personally enter the producer's actual field of vision. Through this anonymity the interests of each party acquire an unmerciful matter-of-factness; and the intellectually calculating economic egoisms of both parties need not fear any deflection because of the imponderables of personal relationships." (Simmel, Metropolis and Mental Life, 1950)

Money is concerned only with what is common to all: it asks for the exchange value, it reduces all quality and individuality to the question: How much? All intimate emotional relations between persons are founded in their individuality, whereas in rational relations man is reckoned with like a number, like an element which is in itself indifferent. Only the objective measurable achievement is of interest. In that sense, the sociability that money relations propose is an ambiguous one: Money can overcome the physical and social distance between individuals, as Simmel argues, because of this capacity to be absolutely transferable, confined with a process of individualization. At the same time, however, individuals in society are valued more exclusively in terms of money. As such, money exerts its influence in a variety of social domains.

Never a purpose in itself (an sich), money has sheer infinite capacities of applicability in exchange relations. At the same time, however, money can become a purpose for itself (für sich) precisely because of its unlimited potentials as a means: quantities of money become significant qualities. Economic consciousness, the need to acquire and monetary greed increase fundamentally in significance not only in the market but in most every sphere of social life, a process Simmel describes as the commodification of interactions or the general reduction of quality to quantity (Deflem 2003:72). In other terms, a general tendency to calculability and quantitative control, leading social interactions to become dictated more by the money people have or represent, appears unavoidable to Simmel, particularly with money's tendency to become an end in itself. Simmel's major point here is to stress the profit from the use of money, not from mere ownership of money but rather 'the money yielded by money' (Hutcinson and Mellor, 1999:5); what we call it in modern economics, the yield of interest.

4.2.3 Money and Finance in a Socio-economic Outlook

In contrary to our arguments about embedding of economic life into social networks, neo-classical school of economics developed an abstract view over economic relations. The classical economy viewed value with a real entity, with its own set of rules and motions. This disembedded notion of economy has been challenged by Marxist and institutionalist perspectives. In Marxist point of view, money has no intrinsic value, even if it appears to be in a commodity form, such as gold. Money value is purely a social construct as is the value of the commodities it represents.

Complementarily to Marx, Veblen makes distinction between industry and business. He asserts that industry encompass all human activities that transform materials for human use, thereby encouraging social cooperation to enhance the special human capability to consciously act in a transformative way. Business on the other hand is individualist and market oriented.

We have already stated that economy has always been at the heart of societal development in varying degrees. Money, in particular, becomes more and more functional within modern society: it establishes relationships and ties people to one another by the flow of goods and services. In simplest terms, all individuals must enter into market relations in order to gain access to the means of life in one way or another. As a form of social relation, market has its own rules and imperatives concerning competitiveness, efficiency and profit maximization. Those principles regulate not only all economic transactions but social relations in general. Modern economy transforms the society more effectively towards the line of economic efficiency.

In three of his essential writings, Marx has devoted considerable attention to the functions of money in the society. First, in the *Economic and Philosophical Manuscripts of 1844*, Marx proclaims money as a detachment from human relations of exchange, a "*distorting* power both against the individual and against the bonds of society, etc., which claim to be *entities* in themselves. It transforms fidelity into infidelity, love into hate, hate into love, virtue into vice, vice into virtue, servant into master, master into servant, idiocy into intelligence, and intelligence into idiocy[61]". Money, in Marx, is the object of eminent possession. Secondly in *Gundrisse*, his crucial work on political economy, formation of money encompassing all of its three functions, namely medium of exchange, unit of account and store of value. He sets of the determination of value in market and internal contradictions of money system with a strict technical analysis. The transformation of money into capital, which is crucial for our analysis of financial capital, is first mentioned in *Grundrisse* (pp.151-200). Thirdly in *Capital*, his studies on capitalist economy become fully matured. The most crucial contribution of Marx in the question of value is presented in *Capital*: in order to money be converted into capital, a specific commodity is needed whose consumption is embodiment of labour and a creation of value. This, Marx contends, can only be labour-power (Deflem, 2003:75). It is on the basis of this labour-theory of value that Marx constructs his theories of labour power, the extraction of surplus –value and expropriation of workers. For the sake of our own study, however, his comments on money that circulates in the manner of money – commodity – money (M-C-M) and thereby its transformation into capital. This process is discussed in length in *Capital* Volume I-Part 2, and in Volume II-Part1. In the third volume of *Capital,* bank capital and bank credit is put on question and analyzed thoroughly in the light of characteristics of capitalist production. Even if Marx admits in chapter 25 of Volume III that an exhaustive analysis of the credit system and of the instruments which it creates for its own use (credit-money, etc.)

[61] The Power of Money, http://www.marxists.org/archive/marx/works/1844/manuscripts/power.htm.

lies beyond his plan, he shortly dealt with bank credits and capital. He simply demonstrates that money-capital is being confused with moneyed capital in the sense of interest-bearing capital, while in the former sense; money-capital is always merely a transient form of capital — in contradistinction to the other forms of capital, namely, commodity-capital and productive capital.

In an overview, Marx adopted a wide definition of money, including deposits and bills of exchange besides currency. Credit plays a fundamental role in the process of capitalist accumulation. During the expansion phases there is a rapid growth, not only in production, but also in the aggregated excess demand and market prices. In these phases the capitalists, as a whole, spend more then they earn, and a part of the purchasing power needed to finance accumulation is supplied by bank and commercial credit (Screpanti and Zamagni, 1993:142). The specific but limited role that Marx attributes to credit in his works constitutes a minor part of his more encompassing analysis of capitalism.

The missing parts of Marxian economics considering the banks' role in the economic system are filled by another Marxist writer, Rudolf Hilferding (1877-1941). Hilferding identifies two sources to constitute the bank's money: First, the money of the non-producing classes; second, from the reserve capital of the industrial and commercial capitalists. In modern capitalism, Hilferding argues, the money at the disposal of banks is indispensable for industry. In other terms, industry is fully dependent on bank capital. On the other hand, the banks can only draw the moneys of the non-productive classes, and keep the ever-increasing foundation stock of the same at their permanent disposal by paying interest on these moneys. That signifies an indirect domination of non-productive classes over the industry. The banks, taking part in this endless process of accumulation, grow to be industrial capitalist themselves; and the capital that they raise, as Hilferding calls the bank-capital, is converted into industrial, productive capital (means of production and labour-power) and fixed in the process of production. Hilferding points out that the bank-capital gives power over the banks, and of that which gives power over industry, is becoming more and more identical. All the more, the large banks are ever gaining more and more power of disposal over the fictive capital. According to Hilferding, this process cannot be reconciled with democratic process but evolved within monopolistic tendencies of modern capitalism. "With cartelization and trustification, finance-capital reaches the highest stage of its power, while the commercial capital experiences its deepest degradation" (Hilferding, Finance Capital, 1910)[62]. In other terms, Hilferding do not differentiate financial capital from industrial capital by means of its monopolistic tendencies. His analysis on financial system is mostly critical but his criticism is fairly limited with Marxist political-economic discourse.

Providing a core sociological perspective, Max Weber treated role of money and bureaucracy in the society as separate forms of his analysis on the rationalization processes in industrial society. In the Protestant Ethic and the Spirit of Capitalism, Weber outlines man's urge to earn more and more money, in a majority of his life span, sacrificing all enjoyments of life (Weber, 1958). His book is a study of the ways in which the values of ascetic Protestantism contributed to the development of capitalism in Western world. For Weber, Protestant ascetism is different from other forms of religious austerities, was a worldly ascetism, in that the highest form of moral obligation of the individual is to fulfill his duty in worldly affairs. This project religious behaviour into the day-to-day world, and stands in contrast to the Catholic ideal of the monastic life, whose object is to transcend the demands of mundane existence (Giddens, 1971:xiii). Weber argues that this ethic of asceticism is important feature in changing people's approach to economic activity. Diligence in work and use of money signified a change from the earlier, traditional, haphazard forms of enterprise and work, to a rational, calculated, systematic, and devoted attention to balances and careful management of money. The result of this was to assist in the creation of groups of people who devoted themselves to acquisition, but in a rational and self-disciplined manner, that is, to renewing and expanding their capital, rather than consuming it in the form of luxuries (Giddens, 1971; Deflem, 2003). Paradoxically, this rationality arises from the irrational accumulation of wealth (irrational, because money is denied its very reason of existence, namely exchange) and leads to rationalization of capitalist money economy.

Weber's interest on religion provides little insight to explain the evolution of Western economies towards a financialized structure. But his observations of modern

[62] Quoted in Karl Kautsky, *Finance Capital and Crises,* 1911. Transcribed by Sally Ryan for www.marxists.org, 2000.

economy's self-conduct towards a more rational, considered, or calculated form of activity is a step in understanding the nature of modern financial capitalism. In his later work Economy and Society, Weber sees the money economy as one of the driving forces of a rationalized, modern economy. Similarly he argues for the social significance of money in creating the possibility of rational calculability, the possibility of assigning money values to all goods and services, which creates impersonal relations of exchange between the participants in the market because money is the accepted means of exchange (Deflem, 2003:77).

4.3 Re-shaping of Turkish Banking System after 1980

4.3.1 Rise of the Retail Banking – "Buy Today, Pay Tomorrow"

Looking back to the planned economy period of Turkey, we observe that banking sector had established profound relationships with productive segments of the society, namely as agriculture, industry and commerce. Although the contribution of private banking here was limited, in asset side, public-dominated banking sector was effective in responding to credit needs of real economy. In liability side, the link that commercial banks had held with households was savings deposits. There were no other instruments that attach individual customer to banking services apart from small-scale consumption credits and basic banking operations like remittance, or trade of check and similar cash items. Coming to 1980's, however, shifting course towards liberalization has changed the orientation of banking from commercial banking to retail banking. Individual customer's credit portfolios have enlarged and diversified with inclusion of credit cards and various consumer credits. Technological advancements in the sector helped further to ease banking operations for end-users of banking services. ATM's (Automated Teller Machines), on-line services, transaction automation systems, automatic payment services and so forth, increased the quality of banking services and made them a part of the urban everyday life. Interpersonal relations became increasingly involved in bank-customer relationship via financial counseling services.

All these developments may seem to diminish the distance between the individual and the bank; indeed they made the banks more accessible for customers.

Nevertheless, this proximity remained in boundaries of commercial relationship. Banks did not become more transparent in their policies, records and functioning. On the contrary, they require full transparency from customers in order to secure their rights over customers. For instance, a bank may ask for any information from a prospective credit customer to make sure that its repayment in due date. Nevertheless, the bank itself usually acts reluctant when customer asks about its financial records or miscellaneous information on the bank's owners. This asymmetric information creates an asymmetric relationship between corporate body of the bank and customers, further complicating the money relations for individuals in the economy. There are numerous occasions in which customers' rights are violated through mystification effect of invisible hand rhetoric of market makers. This asymmetric relationship also constitutes the core element of hegemony of finance over social relations, which will be elaborated in following sections.

Historically money has been found (shells), mined (gold, silver) or been socially identified (cattle). Money today is issued as coin, paper or -thanks to last developments in financial technologies- an electronic record, much of the latter as debt (i.e. credit cards). Mellor identifies three specific results of this transformation: First, the myth that there was ever intrinsic value in money has been finally abandoned. Second, the idea that there is any specie money backing currency circulation has become meaningless given the huge amount of credit circulating in modern economies. Third, issue of money and coin has virtually ceased in favour of electronic 'sight' accounts (2004:11). In Turkey, use of electronic money is not as common as European countries but carrying banknotes had been regarded as a burden for a majority of people who has access to digital money via credit cards, debit cards and the like[63]. Cardholder profile in Turkey is expanding from high income group to middle income/salaried groups and recently became prevalent even in low income consumer profile.

A credit card system is a type of retail transaction settlement and credit system, named after the small plastic card issued to users of the system. The fundamental difference of credit card usage from traditional payment systems is being a debt-based

[63] According to Interbank Card Center (ICC) statistics, the total number of credit cards in Turkey by the end of 2003 is 19.863.167. The number of domestic and foreign transactions made by Turkish cardholders is 830 million, and domestic and foreign card volumes made by Turkish cardholders is 40.334 Trillion TL by the end of 2003 (source: www.bkm.com.tr/Eng/statistics).

money system. In other words, the credit card issuer loans the consumer money rather than having the money removed from an account. Each month, the cardholder is informed of the total amount that is owed with a written statement. The cardholder must then pay a minimum proportion of the bill by a due date, and may choose to pay more or indeed pay the entire amount owing. The credit provider charges interest on the amount owing (typically, a fairly high rate much higher than most other forms of debt). That system is somehow inconsistent with traditional transaction logic because it makes possible the spending of a non-existent money. Spending precedes the earning; hence the natural link between income and consumption is broken. Even if the payment is made possible within a certain credit limit, that limit barely reflects the cardholders' actual purchasing power. The limit also cannot be perceived as a budget constraint, for it is a fictitious one; just like the "minimum proportion to pay", being imposed like a latent incentive to postpone the full re-payment. In an overview, debt-money economy with credit cards as spending tool, provided a physically safer money alternative and eased monetary transactions but it created a society of debtors in the last analysis. Considering the fact that the debtors are usually individuals and creditors are corporate entities, such a credit agreement deepens and complicates further the submissive status of a singular person against a corporate body.

Social implications of recent trends in retail banking are surely not limited with changing consumption patterns: the consumption patterns also enable classification of men into newly identified status groups. Once the wealth was the source of high status, then came consumption capability; now the ability to borrow shows itself as the new status indicator. Building a good credit history via use of debt-money opens a way to better credit loan opportunities, and even more, like the following credit card advertisement suggests:

> Owning a Platinum credit card means that you are a very special customer. This is a guarantee for first-class service and personal attention, as well as significant discounts when shopping with merchants or paying for various services around the world. With your Platinum credit card you will receive special attention and privileges at some of the best resorts and hotels in the world and you can travel without a single worry. Enjoy the high social status you have earned with the help of your Platinum credit card from First Investment Bank (Source: www.fibank.bg).

This is also consistent with Weber's view of every society is divided into groupings and strata with distinctive life-styles just as it is divided into distinctive classes (Giddens 1971:89). People can be subdivided now according to the level of benefit from social and economic facilities that they are being granted by the creditor with which they are working. Similarly, if we translate Veblen's theory of leisure class to modern debt-money economy environment, we can deduce that debt-money is an enhancement of conspicuous consumption and a medium of spending without a relevant earning. The population becomes permanently tempted to satisfy all its desires not only through advertising, leaflets, mail-order catalogues, but also through the credit cards systems. "Buy today and pay tomorrow" - more and more consumers live according to this motto and our society takes an increasing demand for luxuries and quality for granted.

4.3.2 Fall of the Commercial Banking: Times of Easy Profits

It appears peculiar at the first glance to witness a rapid progression in private banking during 1980's: First of all, capital substructure in the real economy was not fully grown to support a sound banking system; and in spite of this, 19 commercial banks were licensed between 1980 and 1989[64]. Eight of them were foreign banks that benefit from incentives to foreign capital. Nevertheless, some of those banks were not sound enough to survive unstable economic conditions of post-1980 period; nine of them ceased to function before year 2003[65]. Authors like Ercan Kumcu (2000:59) and Ziya Öniş (2003) argues that their licensing was political decisions. Another serious problem faced by commercial banks was dead loans. Due to economic turmoil in high-inflation and volatile interest rate conditions, factor costs of real sector entities unexpectedly increased and many firms failed to repay their liabilities to commercial banks. In these conditions, lending money to real sector carried too much risk within to be borne by already weakened commercial banks.

[64] Adabank, Bank Kapital, Bank Mellat, Bank Europa, Birleşik Türk Körfez Bankası, BNP-Ak-Dresdner Bank, Chemical Bank, Deutzche Bank, Fiba Bank, Finansbank, Interbank, JP Morgan Chase Bank, Koçbank, Marmarabank, Midland Bank, Tekfenbank, Tekstil Bankası, Türkiye Emlak Bankası, TYT Bank

[65] Adabank, Bank Kapital, Birleşik Türk Körfez Bankası, Fiba Bank, Interbank, Marmarabank, Midland Bank, Türkiye Emlak Bankası, TYT Bank.

While banking sector was struggling to survive in economic turmoil, Özal government was seeking new ways of financing public deficits. Thanks to newly emerging domestic capital markets, government was presented with new opportunities to borrow domestically. As a result, short term borrowing from financial markets became the financial policy of the government, instead of making effort to enhance state's income possibilities. Government's increasing requirement of public borrowing pushed interest rates upwards. So the revenues from sale and interest-bearing assets got out of balance in favor of the latter, which is the first sign of most financial disasters[66]. Fascinated by high interest revenues, private banks of Turkey rushed into bonds and other assets, leaving aside their essential function of funding the real sector. Hence, the balance was spoiled in advantage of financial markets, and private banks placed their resources to portfolio investments whose revenue is much higher than revenues from their loans. Banks found portfolio investments also less risky then loan placements as repayment capabilities of debtors were unsteady in the marked macroeconomic instability. On the other hand, their claims were under guarantee of the state. In such circumstances, one cannot assume that a proper economic relationship existed between real and financial sectors. Public borrowing "crowded out" economic resources away from productive use of real economy to money games of bankers. In other terms, high interest rates offered by the government bonds and treasury bills set the course for the dominance of finance over the real economy.

4.4 Morality in Banking – Culmination of Corruption in the System

4.4.1 Roots of Corruption

Considering the fact that financial system reigned over real economy and became a purpose in itself, its moral traits also put into question. Before financial liberalization there were very few banks in operation[67], but they were regarded as

---

[66] Those deficit-financing policies led the commercial banks to open short positions in foreign currencies, meaning they made short-term borrowings from international markets in order to finance their massive investment in government bonds. As they started to operate in short positions in foreign currency, they grew more vulnerable to foreign exchange and interest rate risks. The fact that the banks involved were typically small and medium-scale banks rendered the situation even more risky.

[67] See appendix F for an overview.

functional actors of economy, for they provided resources for growth-inducing investments. Nevertheless, in post-1980 era, as they began to channel fewer funds to real sector and increasingly financed public deficits at offensively high rates, they get despised as rentiers, “leeches” sucking the blood of the public resources. Especially, banks’ enormous profit margins with respect to industrial and commercial sector units in conditions of high inflation and unequal income distribution severely damaged their legitimacy. Yet, attractiveness of opening banks was higher than ever in that period: on the basis of primarily political criteria, 18 private commercial and investment banks had been established within ten years between 1983 and 1993. Since granting of banking licenses is determined mainly by political considerations, it was likely to generate perverse outcomes: Six banks were allowed to enter the sector during and immediately after the elections of 1991. What is rather disconcerting is that all these six banks have subsequently failed, within a decade of their inception (Alper and Öniş, 2004)[68].

The golden years of banking lasted until 1994 crisis, as profits in the sector dropped drastically and heavy losses occurred: 10 of those 18 banks ceased to function between 1994 and 2002 by economic and non-economic reasons. That means, most of the banks that were formed between 1983 and 1994 were either weak in capital structure or were abused by their owners for illegal gains. Since banks’ role is more critical in the economy than other corporate entities, their bankruptcy or liquidation cannot be accepted in tolerance; for social and economic cost of a failing bank is incalculable.

It was the year 1985 when Savings Deposit Insurance Fund started to operate within the Central Bank of Turkey. Then it continued to operate under Banking Regulation and Supervision Agency (BRSA). From 1997 to now on, 22 private banks were taken over to SDIF, mainly for three reasons: First reason is the sudden weakening of a bank’s capital structure due to purely economic circumstances, like economic crises. If the damage is beyond recoverable limits, SDIF takes the bank over to secure its positions or command to liquidation. Second reason is persistent mismanagement of a bank that perils the claims of rightful owners. After a sequel of

[68] Bankkapital, EGS Bank, Kentbank, Sitebank, Toprakbank and Yurtbank were taken over by SDIF between 1998 and 2002. For a list that cover all takeovers see Appendix E-1.

formal warnings, the bank is expropriated by SDIF. The final reason is obviously the most common: systematic abuse of bank resources and irregular operations in command or full awareness of the bank's management. Appendix E-2 classifies the bank expropriations according to the reason of their takeover. In the table, it is clearly shown that 17 of total 22 expropriated banks are taken over to SDIF for corporate mismanagement and illegal banking operations; only remaining 5 is failed due to market conditions or strategic failures.

Even public banks cannot be considered as exempt from abuse and corruption. Emlak Bankası constitutes a precise example of this situation. Series of events resulting with liquidation of Emlak Bankası started with the shooting of the former General Manager of the bank. Seeming like an ordinary criminal act at first sight, soon led to the surfacing of a scandal extending from the top ranks of the bureaucracy to influential businessmen[69].

4.4.2 A New Malpractice: "Hose-piping"

The corruption in the banking system at last found its reflections in popular language in early 2000's. A new term, "hose-piping"[70] was invented to indicate the unlawful action of looting a bank's resources for one's own personal gain. Committers of such a deed were called "hose-pipers". A similar notion was named as "tunneling" by Johnnson-LaPorte-Silanas-Shleifer in their work of same title at American Economic Review, May 2000 (Karacan, 2002(a):34). According to the writers, looting

[69] The known part of the Civangate scandal is primarily the story of two shining stars of the Ozal era, Engin Civan and Selim Edes. Civan was one of the "Princes" that were brought from the US to run key financial institutions in the 1980s upon the recommendation of Ahmet Ozal, becoming general manager of Emlakbank in 1987. Edes, one of the close acquaintances of the Ozal family, became one of the leading businessmen of Turkey through undertaking many top projects for the ANAP- led Istanbul municipality. Later, Edes would receive millions of Deutchmarks as credits from Emlakbank in return for a $5 million bribe that he paid to the banks's director Civan, for a project which never existed in reality. In 1994, when the ANAP reign had come to an end and Civan was removed from the head of Emlakbank, Edes asked for the bribe money back and, upon Civan's refusal, Cakici's gunmen shot and wounded Civan. The two men were tried and convicted upon the shooting and Edes after his release on 6 April 1995 escaped abroad without paying the legal fines that were part of his punishment. (Source: Turkish Daily News, 09.06.1996)

[70] In Turkish: hortumculuk

can be committed in two ways: First, one or more shareholders can transfer the banks' resources by self-dealing operations into their own account or account of their affiliates. Second, by insider trading they can manipulate the bank's actions on their behalf, causing loss of other shareholders and earning profits from common financial yields. The difference between those two is whereas the first type of looting aims directly the bank's resources, while second type involves only violation of shareholders' right. The writers assert that the first type of looting is typical for emerging markets in which legislation and supervision mechanisms are immature and/or flawed. In developed economies, however, corruption is overcome by close inspection and almost flawless legislative system. In such economies, like in United States, second type of looting is most common. This type of looting can be practiced even in legal framework; their boundary is set within the acknowledged principles of free competition.

In Turkey, looting is committed on bank's own resources, rather than shareholders equity. In fact, bank resources has been under legal protection in Turkey since the first Banks Act in 1933 but the problem is, such rules and regulations are weakly implemented in practice. Another reason is some up-to-date banking operations and transactions are not covered in law, so even a proper supervision is made; the act may not be punished. In Turkey, there are two popular ways of looting a bank: one is called "back to back operations" and the other is "off-shore deception". The first one is a joint activity between the owners of two banks collaborated for the same purpose. Since extending loans to the own affiliates of bank is limited by law, two banks agree on extending loans to each other's affiliated companies then they exchange the amount within themselves. Thus the loan is channeled into bank's own affiliate in a perfectly legal manner, with obviously no intention of re-payment.

The other method of looting is committed through offshore accounts. The system is operated in two ways: In the first way, bankers incite depositors to place their money into offshore accounts where they would benefit from considerable tax deductions. Those accounts are held by offshore banks, generally situated in coastal regions[71]. Those offshore banks carry the same company name with the original one, but are completely different corporate bodies. Therefore as the bank goes into

[71] Only in Northern Cyprus there are 38 offshore banks.

liquidation, depositors cannot claim their loss from the bank since the bank is not legally bounded with national laws. Second way of looting through offshore banking is, extending loans directly to a bank or company in an off-shore region. This bank or company is in fact a dummy, previously taken over or established by the banker himself. When the company refuses to return the credit back, national laws again cannot enforce those dummy companies to surrender their debts.

Other than the techniques that are presented above, there are various other ones as well, offering good deals with less risk. Although they offer less profit than the previously mentioned major operations, they are relatively easy to handle. For that reason they can be called as *minor looting*. For instance, the bank may purchase some goods or services from a certain company at a higher cost than its actual price. The moderating banker gets a portion of the spread as his commission and the rest is acquired by looting company. In banking, outsourcing of some services is a common application and very susceptible to abuse in this way, in an environment of loose legal supervision.

Unlike the practice of minor looting, major looting is incomparably complex and generated interactively within a network of bankers, businessmen, legal advisors, bureaucrats and finally politicians. Area of effect of the network is proportional to the volume of bank resources to be tunneled; the associates of the network are bribed by the chief actor of tunneling for their support and in return, they become part of the crime.

Although legal infrastructure and regulatory mechanisms are inadequate and ineffective, there are laws to prohibit abusive actions of bankers and there are agencies of supervision to inspect and report them to higher authorities. In other words, still there is a controlled environment for banking activities. Under these conditions, tunneling a bank's resources should not finish up within the sphere of economic relations. Bureaucratic and political links are necessary to arrange the secrecy of illegal transactions, whereas media links are needed to keep public opinion unaware of plot. For that reason, major tunneling operations in Turkey are performed at least with three pedestals: bankers, politicians and bureaucrats. But in common cases a fourth actor intervenes: corporate media managers to complete the picture.

Public opinion can easily be manipulated with the help of systematic and persistent media attacks. The media is a fertile ground for consent management techniques and manipulation of public agenda. For that reason, capitalists of finance found it useful to gather allies from media or acquire their own media corporations. In Turkey, media industry has an oligopolistic character. Moreover, more than one major newspaper and TV channel is owned by the same group. That situation creates an unfair competition environment among the banks that own a media company and those who do not. Appendix F indicates media ownership of major bank owners of Turkey.

A closer inspection of the scheme gives insights on real motives of bank owners who engage in media management: 10 out of 11 banks are transferred to SDIF are affiliated to at least one media institution; and 9 of their owners were accused of tunneling. This indicates that to own a media corporation is a common strategy of most looters of bank resources.

Egebank case is a precise example of major tunneling, involving all necessary elements and connections available in the system. The protagonist of the scandal is Yahya Murat Demirel. He used 11 different patterns to tunnel Egebank once he owned, including back-to-back credit operations, credits in blank to dummy companies, credits in blank to bank's own subsidies, off-shore banking operations, transactions with fictitious companies abroad, using twisted ATM accounts and the like. The story begins with Demirel's takeover of Egebank in 1998.

In May 1998, Bayraktar Group transferred the shares of Egebank to Universal Yatırım Holding, owned by Yahya Demirel. So began the years of Demirel in Egebank. In a short time period of 18 months, 1.3 billion USD of the bank's resources were tunneled to the personal accounts of Demirel and his associates. Nevertheless, the nature of events taking part in this scandal is even more disturbing than the amount itself: In June 1999, Treasury appointed a member to management committee of the bank to supervise and report the illegal activities within the bank administration. Even the Treasury member in the Board of Directors was twisted by the promises of huge gains from illegal operations and involved in the "hose-piping" process. So the bureaucracy has failed to supervise the bank's unlawful acts. Another bureaucratic scandal took place in the very day the TMSF took over the bank. Although the procedures of takeover started at 8:30 AM for the other banks in liquidation, procedures for Egebank took place at 9:30 AM by no apparent reason. Secretary of Demirel admitted that she took order to dispose and transfer some documents the night before takeover. In the morning of following day, security cameras recorded that bank officers' smuggled money and commercial papers from the quarters of general management. All those events raise the obvious question of how the information of takeover has leaked from SDIF to Egebank Headquarters, but it remained unanswered.

Political impacts were also effective in Egebank case. In June 1999, Sworn Bank Auditors submitted their report of inspection to the Treasury. The report explicitly displayed that Egebank had a 300 trillion TL of capital leakage and needed to be taken over by SDIF. The report was sent to the Ministry, but the government, for some reason, took no action until December 1999. Within that critical 6-months period nearly 250 million USD was tunneled and gone. Moreover, one of the leading members of the tunneling network was Hatice Behlül Özbay, mother-in-law of Hüsamettin Özkan, Vice Prime Minister of that time.

Yahya Demirel, already acknowledged the importance of public relations, kept his relations close with media executives. He worked with one of the leading advertisement agencies, Cenajans-Grey, and launched assertive advertisement campaigns. He increased his credibility by promoting his bank and invited people to invest their money to the high interest bearing deposits of his bank. In a relatively short time he succeeded in collecting huge amounts of deposits. He made excessive payments to Cenajans-Grey, recording the payments as expenses of the bank, without buying any services. Even advertisement expenses of his own companies were covered by Egebank. Demirel and Nail Keçili, chairman of Cenajans-Grey became close friends after those transactions. During Demirel's trials after takeover of the bank, Keçili effectively prevented news against Demirel and his deeds from being published. Hence, his influence in all media sheltered Egebank corruption from getting scrutinized in public sphere. Nonetheless, Nail Keçili could not escape from trail with his associate after their collaboration has ended. Ecevit government called SDIF on duty in December 1999 and Egebank was taken over by the Fund with 4 other Turkish banks (Tartan, 2003; Kelkitlioğlu, 2001).

4.5 Bureaucracy of Finance in Turkey: Between State and the Market

4.5.1 Bureaucracy versus Politics

Politics is attached to economy in many ways: In budgetary decisions, in management of state revenues and expenses, in allocation of public resources, in planning of investments, maintenance of social equity, ensuring property rights and regulation of markets for efficient and responsive functioning (Eğilmez and Kumcu, 2002:32-54). Since social stability is one of the key elements of properly functioning economy, the role of politics in this context is utterly important. In case of Turkey, on the other hand, political intervention in the economy is often considered as deconstructive, even proved to be disastrous. As summarized in previous chapters, past experience of last 50 years political heredity exhibited extreme instability, incompetence, short-termism and moral hazard. The anomaly of 1994 crisis itself represents somewhat inappropriate involvement of politicians in economic process. February 2000 crisis was even worse: The crisis broke out from a dispute between the president and the prime minister during a meeting, instantly blowing up all economic equilibriums. Thus, all efforts that had been made to stabilize the economy for so many years were ruined in a single day.

The problem itself is more than the role of politics in sphere of economy but politicians' own concerns about politics. Mahfi Eğilmez states that (Eğilmez and Kumcu, 2003:95-96) in developed countries, the order of importance in economic life is market, bureaucracy and politics. That means market efficiency is the major concern in the economy. Bureaucracy comes next with its regulatory functions. Importance of politics is relatively insignificant compared to other two as indispensable elements of economic life. However for Turkey, the inverse holds true: politics comes first, then bureaucracy and lastly the market. Inability to make long-term arrangements in economic policy and sudden disruptions in process indicates that political interest is always one step ahead of economic necessities.

As Eğilmez pointed out, for the last few years the bureaucracy have attempted to reverse the situation in advantage of the market and political willpower could not insist on its own concerns as it did previously. Two variables are significant in that changing course: first, weight of IMF and World Bank significantly increased over last decade after subsequent failures in economic governance. Structural tension between bureaucracy and politics was making decision-making process a jigsaw puzzle, interminable disputes resulting with heavy losses in economic and social terms. International monetary institutions like IMF obliged to Turkey an economic infrastructure compatible with their council and economic sanctions. In this regard, they preferred to work in cooperation with relatively stable and specialized bureaucratic institutions instead of unsteady political organs. In the new economic pattern, a market-oriented approach is adopted by bureaucracy with significant support of IMF and World Bank. Secondly, fragility of economic structure no longer tolerates deviations from economic rationality; public opinion grows more concerned on economic issues and set economic stability as primary condition for re-election of party in power. In other terms, governments have no credit for short-term stability measures because all of their means are exhausted. A market-oriented approach becomes not an option but an obligation for political will, in present context.

In summation, domestic political environment of Turkey provided few incentives for a smooth transition to a regulatory state with specific reference to banking sector. However presently, rationality in economic decision-making gains advantage over populism and the role that external actors played was significant. Due to lack of coordination between domestic political and bureaucratic units proved fatal by macroeconomic crises, all economic units agreed on transferring the supreme economic power to international monetary institutions. The World Bank and IMF, then, became the primary external actors responsible for the implementation of regulatory reforms in economic sphere. The EU also can be considered as an external actor to an extent that a part of Copenhagen criteria is related to the economic sphere.

In fact, the term "economic rationality" becomes questionable when IMF and the likes is the case. In retrospect, there are numerous occasions that IMF'S capability of economic diagnosis is tested and resulted in failure; Asian Crisis of 1997 is a precise example of this. What we emphasize is, the reliance on IMF-driven policies in Turkey does not depend on the organization's competency: the privilege of the IMF lies in its immunity from domestic political impact. Political sphere in Turkey is completely subjugated to IMF and this is the only thing that government is determined to pursue.

4.5.2 Redefining Bureaucracy: Autonomous Institutions

Autonomous institutions are common to all developed economies, varying in degree of autonomy and power. For instance in United States, there are almost 100 independent federal regulatory institutions. Seven of them are characterized as "Big Seven" and they are endowed with considerable regulatory power in their area of occupation. The Interstate Commerce Commission for transportation, Federal Trade Commission for market competitiveness, Federal Power Commission for energy, Federal Communications Commission for telecommunication, Securities and Exchange Commission for stock exchange regulations, Civil Aeronautics Board and National Labor Relations Board. They are called New Deal Agencies and most of them are formed right after the Great Depression of 1929. The agencies are created and assigned specific tasks by the legislature. They carry out these tasks by making decisions of various sorts and supervising the procedures by which the decisions are carried out. The power and authority of Agencies may be extremely broad or incredibly narrow but whatever the extent, Agencies make a great deal of policy within the boundaries of their enabling act (Musgrave and Musgrave, 1991).

There are various reasons have independent regulatory agencies active in economic life in U.S. The most important one is the lessons of Great Depression, teaching that self-regulation mechanisms of free market are dangerously limited, so for each segment of the market at least one specialized regulatory institution is needed. Second facility that the Agencies offer is their degree of specialization. The complexity of economic relations have greatly increased over the first half of 20th century, and U.S. legislature desired to convey its authority over technically detailed issues to specific agencies in order to increase the speed and effectiveness of economic decision-making process. The agencies are equipped to deal with day-to-day governing, a governance skill that cannot be performed by the Congress. Third reason is a more subtle one: power and authority struggle between the President and Congress of United States gave way to seek a third way, a third organ at the same distance to Presidency and The Congress. In other terms, independent agencies became media of political consensus on the peak levels of government in U.S.A.

In an overview for U.S.A, the emergence of independent regulatory agencies is a product of modern economy's conditions and emerged within the own dynamics economy. On the other hand in Turkey, although domestic markets have signaled the necessity of regulatory units more than once over the last 25 years, signals have not been taken into account by political authority. The custom of political governance in Turkey has neither inclination nor determinacy to renounce a portion of its authority by no means to ensure stability or efficiency. Enforcement to the government in a way to establish independent agencies mostly came from international monetary authorities and correspondences with E.U. For instance, IMF backed stabilization programs set the emergence of regulatory agencies as an obligation for continuity of support. Institutions like OECD and World Bank also encourage their establishment. In other terms, to support local bureaucracy is adopted as a policy by international bureaucratic institutions.

Mission statement of Independent Regulatory Agencies can be summarized under 4 headings: (i) Administrative tasks (Authorization, licensing, certification etc.) (ii) Regulative tasks (notifications, circulars, statutes, policy guidelines etc.), (iii) Supervision and auditing, (iv) to impose sanctions like confiscation, impounding or directly involvement in administration in the last resort (Karacan, 2002(a), Musgrave and Musgrave, 1989). First three can be regarded as essential duties of a regulatory agency whereas the last one is a rather exceptional duty called upon in rare occasions. In Turkey, however, regulatory agencies are recalled mostly with sanction and punishment[72]. This is partly due to the very corrupted nature of Turkish banking system; unlawful actions are so common within the system that regulatory agencies cannot help but to dispose their efforts to prevent the deviations from laws. Public opinion also perceives regulatory agencies as if they are law enforcers of banking system, whereas the courts are present for the duty.

Nevertheless, laws that set the rules of financial system are outdated by the events of up-to-date banking practices; and even if they respond to some matters, judicial procedures are too clumsy for the need of quick decision-making. The courts are already overloaded with an excessive amount of lawsuits and trials take too much

[72] Some examples of Turkish independent regulatory agencies are Banking Regulation and Supervision Agency (BRSA), Capital Market Board (CMB), Supreme Board of Ratio and Television (SBRT), Board of Telecommunications (BT), Competition Board (CB) and Kamu İhale Kurumu (KİK)

time to complete. Administrative courts also lack the specialization to go into appropriate judgment in some cases. To sum up, judicial power cannot cover the area of finance effectively then in consequence, the area is left to the occupation of regulatory agencies.

Moreover in Turkey, the Treasury and Central Bank have always been extremely prone to political meddling and influence, and it is only very recently that the central bank gained legal independence through the Central Bank Law, which was enacted in the first quarter of 2001. Until 1997, Central Bank was forced to open advances to the Treasury in financing deficits. In 1997, this act was prohibited by law. Similarly, the Treasury had always been subject to severe pressure from politicians interested in rent distribution to gain electoral advantages.

Currently, Banking Regulation and Supervision Agency (BRSA) is the most broadly and vividly discussed regulatory agency, due to the current agenda of economy. BRSA is recalled often with tunneling incidents and corrupted banks. The power and authority of the institution are a matter of dispute within the public opinion, as well as its competency and independence.

4.5.3 Banking Regulatory and Supervision Agency – A Case Study

As outlined in previous chapters, Turkish banking environment suffered deeply from the absence of a prudent regulatory environment. Until BRSA acted in August 2000, the Treasury and Central Bank shared supervisory duties between themselves. Although they dealt with separate issues in the sector, this task division could easily create conflicts of power and responsibility. For instance, the Treasury has many duties concerning public expenditures, taxation, budgeting and so forth but regulation of banking may contradict with some of those duties. Treasury’s responsibilities for Turkish economy as a whole undermined the necessities of banking system. Some portion of the authority over banking system was held by the Central Bank, whereas most of the administrative duties were undertaken by the State Ministry. As can be seen, in such a structure, the system was not only susceptible to political influence but excluded specialists of banking and professionals from the administration of it.

In this regards, with significant efforts of international organizations also, 57th government brought the formation of an independent regulatory agency for banking into question. Then in the new Banking Act no.4743, which was ratified in 18.09.1999, inscribed the establishment of Banking Regulation and Supervision Agency (BRSA).

BRSA was put on agenda in a very sensitive environment for banking system. It was a time that the legitimacy and prestige of banks are at the lowest level. Especially private commercial banks were regarded as the main reason of persistent increase in public sector borrowing requirement, a determinant factor of rising interest rates of internal borrowing, a chief actor of macroeconomic instability and even presented as blood-sucking leeches feeding on the resources of the public. Due to such a negative conception of banking, BRSA was perceived at first hand as an inquisitor who would bring order to the system. Yet the Agency has more vital duties than playing man-at arms, like rehabilitation of the system as a whole, both in statutory and operational level.

To prove its determinacy in reforming the system, government cancelled the licenses of 5 commercial banks whose capitals were critically eroded, right before the BRSA was embarked. The very first operation that BRSA had undertaken was the transfer of Etibank and Bank Kapital under SDIF[73]. Then the liquidation of Egebank, Interbank, Yurtbank and Sümerbank followed on in the same year. Perspective of public opinion over BRSA started to take shape in that period of massive compulsory liquidation. The disputes on those liquidations intensified as the autonomy of BRSA was put in the question.

In its code of establishment within the Banks' Act no: 4389, BRSA was proclaimed as an autonomous entity in written terms. Nevertheless, just 6 months after its ratification, its independence was put in the question with an amendment: in the initial version of the Act, members of the Board were to be proposed by various bureaucratic units in the economy and would be appointed by Board of Ministry. With the amendment made with Act no: 4491, the members of the Board were to be appointed upon the proposition of related Minister and appointed by the Council of Ministers. With this amendment, the Agency was born defective in terms of

[73] Etibank was owned by Bilgin group and Bank Kapital is owned by Ceylan Group.

independence and this was the first sign of general disappointment concerning the organization of the Agency. The political formation of agency members raised questions about autonomy of the institution. The banks Act no: 4389 did not contain any precise item to prevent political influence on Agency. On the contrary, it was filled with regulations to delegate the political will over the Agency's decisive power, from organization to supervision. The Agency was constructed to give assistance to political deeds, rather than to employ its own policies. Primary concern of the governments over the Agency was, then not the proper regulation of the Agency but appointment of "right" members to the Board: After the other modifications had made, establishment of BRSA was scheduled to March 2000, but due to delays in appointment of board members it could not be completed until September 2000.

In conclusion, independent regulatory agencies seem to be conceptually alien to the political tradition of Turkey. The familiar structuring in Turkey's governance culture is a top-down directive model. Bureaucratic decision-making process is no different: order is given by the top of government and fulfilled by bureaucratic agents; by all means and without scrutinizing the order. But autonomous/independent structures are self-motivated; they take no orders from any higher authority and their power is bounded with related law. Supremacy of law is the primary condition for a proper functioning of IRAs; independence here is not in absolute terms but within the boundaries of laws. Considering the Turkish case, again, IRAs level of independence is bounded with laws but even independence of judicial power is dubious, let alone independence of IRA's. Indeed, even semantic difference between the words *independent* and *autonomous* reveals the true intentions of the legislature: in the code of BRSA, as in amended version of the code of CMB, the word *autonomous* is used instead of *independent*. The content of the word *autonomous,* not as bold as independent, reduces nature of the agencies into ordinary bureaucratic institutions, whereas the agencies should be entitled as independent by their very origin.

As a matter of fact, IRA's and their bureaucratic structuring represent a higher state of rationality in governance of Turkish financial markets. They stand as systemic regulators against arbitrariness of political decision-making process and volatility of free market. In that sense, IRAs appear as a necessity for continuity of economic system. Otherwise, markets can easily be sacrificed by their own chaotic nature and political impacts on them would not be always constructive and helpful. On the other hand, Turkish economic system had been too much dependent to political will and the logic of economic rationale was very distant to Turkish political traditions. Chronic short-termism and arbitrariness has reigned over Turkish economic governance, and market signals for a more foreseeable economic environment were often disregarded by political will. Especially, as complexity and size of financial institutions reached a certain level, difficulties of regulation and supervision greatly magnified beyond the handling capability of a premature arbitrage system.

4.6 Banking and Societal Development

4.6.1 Centralization of Turkish Financial Capital

According to some World-System analysts, long periods of discontinuous changes in capitalism, ended in a reconstitution of the capitalist world-economy on new and enlarged foundations. As capitalism's basic economic imperative is the ceaseless accumulation of capital, made possible by continuous appropriation of surplus-value, it requires the incorporation of new zones into the world-economy's division of labour. Thus, any turning points within capitalism's systemic cycling involve a restructuring and reorganization process, in core regions as well as peripheral regions[74] (Wallerstein, 2001; Arrighi, 2003).

During its evolution through the ages, capitalism's degree of centralization also changes over time. Scott Lash and John Urry (quoted in Arrighi, 1994:2) speak of the end of "organized capitalism" and of the emergence of disorganized capitalism. The central feature of organized capitalism –the administration and conscious regulation of national economies by managerial hierarchies and government officials- is seen as being jeopardized by an increasing deconcentration and decentralization of corporate powers, which leaves processes of capital accumulation in a state of seemingly irremediable "disorganization".

If we look to the spatial configuration of Turkish financial centralization, we do not observe a significant change in center location. Throughout the history,

---

[74] In common identification: emerging markets.

financial centers of Ottoman Empire had been Salonica and Istanbul. The situation has not been changed since the declaration of Republic and until today; Istanbul is still the ultimate center of Turkish finance. In fact, the capital in Turkey is localized intensely in roughly three regions: Istanbul (and Marmara region), İzmir and Çukurova region (Adana and Mersin). İzmir was prospered through external trade and commerce, whereas Çukurova accumulated through agriculture and specifically textile industry. Istanbul's economy had always possessed an industrial character. Nevertheless, from those three regions only Istanbul was successful in raising a financial capital that is proportionate to its industrial and commercial potential. In İzmir, only three national banks were formed and their scales were not comparable to Istanbul Banks: Tarişbank (Formed as Milli Aydın Bankası) is established 1913 and acquired by Yaşar Holding Company in 1999. Yaşarbank (Formed as Türkiye Tütüncüler Bankası) is established in 1924 and joined to Yaşar group in 1980. Last bank that is emerged in İzmir was EGS Bank, formed in 1995. All of the three moved their headquarters to Istanbul and presently no banks left centered in İzmir. The same situation holds for Çukurova: Akbank was established in Adana in 1948, moved to Istanbul in 1954 after joining to Sabancı Group. Pamukbank, another prominent financial institution of the region, established in 1955 and joined Çukurova Group in 1973. It was re-installed with all management offices to Istanbul as well.

Coming to public banks, for the sake of proximity to state bureaucracy and government units, they are all gathered in Ankara. In total, there are 26 private commercial and investment banks operated in Turkey and 25 of them is located in Istanbul. As İş Bankası moved its Head Office to İstanbul in 2001, only private bank that remained in Ankara is Şekerbank. Moreover, Istanbul banks hold the 63% of total assets in the system. Remaining 37% portion is held by public banks, in Ankara. Thus it would be appropriate to state that private capital is hosted in Istanbul, whereas state capital is situated in capital city Ankara. The difference is private banks exodus to Istanbul is a market driven act whereas Ankara's lodging of public banks is a bureaucratic decision.

The mustering of private banks in Istanbul made the city a center status whereas leaving all the rest of Anatolia in periphery in regards of capitalist concentration. Prevailing income equality in Turkey can be demonstrated through financial indicators, accurately as real economy data: By the end of 2002, 42 percent of total deposits in the banking system is cumulated in Istanbul. The share of total loans that are extended by Istanbul branches amounts to 53 percent[75]. Considering that Istanbul has only 14 percent share of Turkey's total population, those statistics demonstrates an obvious disequilibrium between Istanbul and the rest of Turkey. To state that Istanbul is the capital city of Turkish financial capital would not be a misnomer.

4.6.2 Transformation of Money Capital in Real Economy: A Theoretical Approach to the New Form of Hegemony

Global economic crises in the world are often referred as "systemic" or "cyclical" movements by economy authors. Capital flows do indicate decay and boost phases and with the impact of exogenous factors, i.e. speculative attacks, political turmoil or the like, the capital mobility can easily turn to a financial crisis. We will not discuss in length the nature of financial crises, but understanding the circulation of money and capital in a capitalist economy will definitely provide valuable insights on structural problems related to the political economy of banking.

At the first Volume of Capital: A Critique of Political Economy, Marx identifies the circulation of commodities as the starting point of capital. In Marx, money is considered as a final result, a final product of the circulation of commodities is the first form in which capital appears. The simplest form of the circulation of commodities is C—M—C, the transformation of commodities into money, and the change of the money back again into commodities; or selling in order to buy. But alongside of this form we find another specifically different form: M—C—M, the transformation of money into commodities, and the change of commodities back again into money; or buying in order to sell. Money that circulates in the latter manner is thereby transformed into, becomes capital, and is already potentially capital. The crucial difference between two phases is, in the circulation C—M—C, the money is in the end converted into a commodity, which serves as a use-value; it is spent once for

[75] Banks Association of Turkey, "Bankalarımız Kitabı", 2002

all. In the inverted form, M—C—M, on the contrary, the buyer lays out money in order that, as a seller, he may recover money. The money, therefore, is not spent; it is merely advanced (Capital, Vol I Part 2 pp.89-95). In the Third volume of Capital, Marx re-assesses this formula by transposing it from sphere of consumption to the sphere of production: Here, M—C—M indicates circulation of capital, suddenly presents itself as an independent substance, endowed with a motion of its own, passing through a life-process of its own, in which money and commodities are mere forms which it assumes and casts off in turn (Capital, Vol III Part 4).

Arrighi borrows Marx's general formula of M—C—M and interpret the transformation in a way it becomes more compatible with modern financial cycling. Arrighi posits Money capital (M) as liquidity, flexibility, and freedom of choice. Commodity capital (C) means capital invested in a particular input-output combination in view of a profit. Hence, it means concreteness, rigidity, and a narrowing down or closing of options. M' means expanded liquidity, flexibility and freedom of choice (Arrighi, 1994:5). In this formulation, capital's tendency towards liquidity can be traced down: initially, the ready-to-use capital (M) is invested in industry for tangible and sustainable extraction of surplus value (C). This phase (MC) is identified capital accumulation through material expansion. Then the accumulated capital proceeds through financial mediums and becomes monetized. This phase (CM') corresponds to financial expansion. Two epochs or phases together constitute a full systemic cycle of accumulation (Arrighi, 1994:6). Roughly speaking, in a systemic cycle of accumulation, capital develops into a world system of commodity production and, once the profit rate begins to fall and production's possibility of expansion grows more inflexible, capital turns from the commodity form to liquidity and the financial form's flexibility.

The industrial capital that is created henceforth would stay rigid and coarse. So the capital wants to reproduce itself in quickest and safest ways possible, transmuting itself into financial capital (M'). A full-fledge explanation for the process is provided again by Arrighi:

> Thus understood, Marx's formula tells us that capitalist agencies do not invest money in particular input-output combinations, with all the attendant loss of flexibility and freedom of choice, as an end in itself. Rather, they do so as a means towards the end of securing an ever greater flexibility and freedom of choice at some future point (…) In other words, capitalist agencies "prefer"

liquidity, and an unusually large share of their cash flow tends to remain in liquid form (Arrighi, 1994:5).

This explains how commercial and industrial capital escape to financial yields for "freedom of choice". Braudel characterizes this as a symptom of maturity of a particular capitalist development. Historically speaking, even in pre-industrial epochs capitalist oligarchy switched from commodities to banking in many commercial centers of the world-system. But the most significant increase in financial accumulation appeared towards the end of industrial revolution in which an extensive oversupply of money capital had been raised.

Arrighi also reports Braudel's historical observation of recurrent financial expansions following logically the general formula of capital (MCM') does not always holds true in terms of transformation in the nature of capital. That is to say, in a situation that yields from capital through financial deals exceed the yields of capital invested in trade and production, or real production cannot effectively feed the wheel of capitalist cycle, capital invested in trade and production tends to revert its money form and accumulate more directly, as in Marx's abridged formula MM' (Arrighi, 1994:8).

When we assume the material expansion (MC) and financial expansion (CM') phases are recurrent and cyclical, it implies a mechanic relationship between productive sectors and financial sectors in the economy. Nevertheless, in Marx's modified formula (MM'), capitalist world-economy shifts through radical restructuring and reorganizations into another path. This path virtually opens way to essentially two distinctive features of recent evolution of capitalist world-economies: First, money and capital markets have been broadening and deepening significantly for the last 50 years of 20th century. During that period, liquid assets not only increased in volume and variety but their volatility as a unit of account has also increased. Especially when European world-economy restored currency convertibility after 1958, countries' financial markets became more closely integrated and volatility of money (currency in an open-economy) has revealed to be a key weakness in the system. Secondly, "playing" in the financial market is no more in the monopoly of bankers and financiers. Producers in the real economy also broadened their financial transactions and extended their investments in financial assets. This is partly due to structural inconveniencies of real economy: expansion of production and trade leads to increased demand for the required inputs, increasing their price, and, since it draws on a limited pool of available labor, increases its cost as well, with an ensuing decrease of the rate of return of invested capital. Consequently, the profit that can be obtained from investing in commodities is surpassed by the return obtained from investing in the financial market. Again, due to specific circumstances of domestic economy, government bonds may provide high returns with almost no risk. That occur especially when public sector borrowing requirement is high and government is forced to meet its short-term funding needs by pulling interest rates upwards. Real sector agents, then, even if their principal scope of business is production, switch to portfolio investments instead of investing to their own business. This situation should appear very familiar with our earlier statements on Turkish financial system.

4.6.3 Understanding Turkish Financial Transition: On "Populist Cycles" in Turkish Financial Economy

Recalling our earlier statements, we argued that Turkish economy does not exhibit a tense integration of financial markets into real markets. National pool of finance lacks the necessary depth and width to provide resources for industrial growth. In early times of industrialization, growth of Turkish economy was sustained via foreign direct investments, foreign aids and external borrowings in greatest extent. The addition of financial accumulation was rather negligible. Even the financial accumulation was a state-driven policy, rather than an occurrence of autonomous market dynamics: The dominance of state-owned banks in the market over foreign and domestic private banks has prevailed in Turkish banking system since declaration of republic and even today, at the heyday of Turkish financial deregulation, the room of state banking in the system is extensive[76].

As Arrighi reported, the phases of financial and real expansion moments are consecutive; they come one after another. However in Turkish case, a cyclical

[76] By the end of 2003, the share of public banks' assets in total is 33%. The share of total deposits and loans held by public banks in the sector is 38% and 18%, respectively (source: Banks Association of Turkey, statistics).

movement within financial and real expansions can hardly be assumed. If one takes a closer look to Turkish economic system, the motives behind the decisions that lead to financial or industrial expansion phases appear as political motives rather than economic drives. Industry, agriculture and finances were taken into consideration in separate manners by different parties in power, as we outlined with main traits in chapter II and III. Due to political instability at the first hand, no coherent economic policy could be made over medium-term periods for 20th century Turkish economy. Therefore, the resulting accumulation patterns are discontinuous rather than cyclical.

Coming to the phases of real expansion (MC) and financial expansion (CM'), they are observable in Turkish economy as in any emergent market but they stand as separate phases instead of recurring economic cycles. This peculiar condition of Turkish economy also leads to controversial views on the functionality of financial markets: although financial expansion is considered good for the economy, since the financial sector has not an impact on real economic growth as it is supposed to be, the usefulness of finances remains questionable. Especially, as the share of non-operating revenues in general revenues increases, the question of "who benefits from banking operations" arises. Authors like Akgüç, Yeldan, Öniş and Boratav insist on arguing that Turkish banks have detached from their conventional function of funding real sector and they put this as an ethical problem at first hand (Akgüç, 1989; Boratav, 2001; Öniş, 2003; Yeldan, 2001; 2002). Actually what they attract attention is the money-capital owners' inclination to higher revenues in short-run via financial deals, i.e. playing in capital markets, stock-market transactions and so forth. In this way, the capital that is accumulated through financial intermediation is not injected into real market in forms of credit or loans, but it returns to financial intermediation for further interest benefit. This is indeed a form of capital transformation as Karl Marx indicated in his formula MM'.

To identify the Turkish case in terms of financial cycling, we adopted the term that is used by Ziya Öniş (Öniş, 2002; 2004) "populist cycles". The term very accurately indicates the nature of Turkish economic policy and relations. A typical populist cycle is initiated by a period of fiscal expansionism designed to generate political support. Given the underlying electoral logic the emphasis is generally on the current expenditures, which have immediate positive repercussions on the current generation of voters. This process, which appears to offer tangible benefits in the short run, however, creates the seeds of its own destruction and embodies negative implications for medium-term economic performance. Fiscal expansionism in an environment of appreciating real exchange rates result in large current account deficits leading to a balance of payments or debt crisis and an inevitable encounter with the IMF. The IMF programs, in turn, are designed to restore fiscal and current account balance but tend to be costly in the short run in terms of their effects on output growth, employment and income distribution (Emre and Öniş, 2001).

The populist cycles are introduced by DP government, around early 1950's, as it was outlined in Chapter II. Second populist tidal wave incurred in late 1970's and followed by a military coup. It was no coincidence that the party in power that is responsible of last cycle, Justice Party, is political heir of Democrat Party. The third populist cycle occurred in 1987 and lasted until 1994. The perverse outcomes of populist cycles, this time, can be seen in bitter panorama of after-crisis repercussions in the economy. Focusing on prevailing disorder and uncertainty within the financial system can lead us to a re-interpretation of Marxist political economy corpus, incorporating specific outcomes of weak regulative mechanism and perverted relationship between political structure and financial units on Turkish capitalist topography.

CHAPTER 5

CONCLUSION

To sum up with the theoretical part of our study, the money/market economy may meet some human needs but that is neither its defining feature nor its primary function; there is a complex set of social relationships embedded in the very center of monetary transactions. *Per contra* the simplistic argumentations of neo-classical and monetarist positioning, money is neither neutral, nor a lubricant veil to real economy. Power struggles, one way to another, inherently lies in money production (Ingham, 1996:14).

We saw that the distinction between creative human labour and money-based activities goes back to Aristoteles with the discrimination of *oikonomics* (production for the household) from *chrematistics* (trade for profit); later on evaluated for capitalist economies as in Marx's distinction between utility and exchange and Veblen's distinction between business and industry. In domains of capitalist economy, what money economy prioritizes cannot be automatically deemed the most necessary for human well-being; it is merely the most profitable (Hutchinson and Mellor, 2004). That is how money society is imposed. In money societies, where a great deal of human provisioning and other activities occur via the money system, without it essential goods will not circulate. This in turn rolls back to the problem of who has access to money and how: Money is no longer dug out of the ground or collected as shells; it is issued into a society in various ways as coin, notes, debts and credits. So far, we tried to present that money issue and circulation is not the by-product of the productive interaction of resources and labour; instead, under dominance of financial forces it becomes driven by market led wants rather than public needs. Money issue is therefore a political question with implications for democratic control of the direction of society.

In the light of all theoretical background, we analyzed step by step the evolution of Turkish financial liberalization. The history of the Turkish economy for the last 20 years was analyzed in two distinct periods: export-led growth period (1980-1988) and a volatile growth period during which the economy became dependent on the short-term capital flows, via an alluring "hot money policy" (1989 and ongoing). The early phase of stabilization and export orientation during the post-1980 era had negative consequences for two distinct groups in Turkish society, namely, wage earners and small and medium size enterprises. That segment, which constitutes the majority of productive agents of Turkish economy, was at the same time the most severely damaged one from subsequent financial crises between 1994 and 2002. In analyzing those crises, we formulated a link between Turkey's political defects and the resilience of fiscal disequilibrium. Especially in the decade between 1990 and 2000, a fragmented party system and weak coalition governments aggravated Turkey's democratic deficits. Successive governments in office continued to be motivated by populist electoral concerns and failed to recognize the importance of an appropriate regulation and supervision mechanism over financial system as a means of sustainable economic growth. The Turkish case clearly revealed that financial sector has an overwhelming power over all other economic forces as well as non-economic structures.

The transition that leads Turkish economy into the path of extended capitalization can be summarized in Arrighi's terms as "capital sets itself free" (Arrighi, 1994:6). According to Arrighi, global capital networks have a systemic tendency to nest in weakly regulated markets and Turkey, in this context, provided one of the most suitable environments to be a magnet for short-term speculative capital flows after the paradigm shifts of 1980 and 1989. Arrighi also reports that unregulated markets (unregulated financial markets in particular) do not produce "equilibrium" but disorder and instability; a financialized domestic economy becomes more susceptible to global crises and political turmoil. A closer look to the successive major crises of 1994, 2001 and 2002 would verify this argument for Turkish case. Looking back, a central lesson to be learned is that Turkey paid the price for the premature exposure to financial globalization, not only economic but also in social domains. What we attempted to make in this thesis was to formulate crucial links between economic –specifically financial- deficiencies and some major issues concerning Turkish social and political life. We employed the term "financialization of social sphere" to gather up the social implications of Turkish financial transformation under single heading.

The term "financialization" was formulated in Marx and redeveloped in Arrighi (1994). Capital, which assumes the money-form is transformed into industrial capital via production and in turn it retains its money form again, but with a premium. This capital with a premium can always be withdrawn as money capital. We saw that, however, in contemporary economic conditions, money can reproduce itself without being channeled into productive wheel. At disposition of banks, capital can be invested directly to interest-bearing assets and by-pass productive process. This is logical circularity that concerns the concept of rent within financial system. The simplest form of this circularity is described by the circuit of money (M-C-M) presented by Marx at the beginning of Section two of *Capital* Vol.1. Its complete form is M-C-M', a formula that describes the production of money by means of money. As outlined in Ferdinando Meacci, when money capital is not employed in material production phase, it becomes fictitious capital, (quoted in Bellofiore, 1998:189-199). In Turkey also, monetization of economy and flexible exchange rates were indeed making possible to get high revenues in short-term without producing or selling anything. Oligarchy of finance made quite a fortune during that temporary phase of high real interests.

The moral changes that were brought out by this ideology were overwhelming. Loose control over monetary transactions and extensive concessions given to monetary barons encouraged the moral hazard among effective agents who are in control of financial markets. Arguably, as a result of Özal's influence over the economy in general, namely the failure to pay adequate attention to the problem of accountability and the rule of law was the key to widespread corruption in all strata of economy. Especially banking sector was extremely susceptible to illegal operations. This is a result of inadequate banking legislations. Indeed, banking services employs too much capital-intensive resource and adapt technological advancements rather swiftly. Banking practices evolves rapidly and changes time to time. Nevertheless, legislative superstructure often fails to respond the up-to-date developments in banking system. In that sense, tunneling was one of the most prominent forms of moral hazard that has already been discussed. Besides its moral implications, the most serious macroeconomic damage of tunneling is done to real economy itself. BRSA reports that the total cost tunneling in Turkish banking amounts to 46 billion USD. 23 billion of that amount is directly taken out of the system by dominant associates, that means detained from productive uses in real economy (BRSA Press release, July 2004).

Reflections to everyday life of financialization are no less striking than the moral questions it has caused to arise. As Sweezy points out (Sweezy, 1994), the accumulation process is no longer focused on industrial capital. The whole atmosphere of new economy is a growing faith to consumerism and a parallel lack of emphasis on the virtues of thrift in the society. Strictly contrary to its nature, new economy's financial instruments were subjected to promote profit seeking rather than encouraging domestic savings. Rise of retail banking can be interpreted within this context; prevalence of credit cards, ATM machines, specific bundles of consumer credits like house purchasing credits, car purchasing credits and so forth, shifted the focus of banking to consumption-enhancing activities. In this manner, new banking customs support conspicuous consumption more than productive investments.

Developments in financial sector also reveal the specific positioning of financial bureaucracy in Turkey: Bureaucracy, which is identified with rationality in modernist context, stands for protection of market participants from damaging, sometimes devastating effects of political short-termism and electoral populism. Nevertheless, since the domination of governmental power over all strata of society excludes any bureaucratic delegation incorporating technical expertise on economics, market rationality did not developed in

Turkish financial terrain. Newly emerging independent regulatory agencies attempt to hold a bureaucratic power over economy, but still they are designed in legal status to be susceptible to political influence. In the absence of a properly functioning bureaucratic mechanism, International Monetary Institutions fill their displacement, acting as a supreme authority even over domestic political willpower.

Lastly, we put a mark on Simmel's early observation of "The metropolis has always been the seat of the money economy" (Simmel, 1950:3). Thus, money's tendency to concentrate and centralize is already understood in Simmel. However, financial concentration indicates another social fact: unequal development. Concerning the center-periphery relations within Turkey's socio-economic topography, the concentration data of financial capital reveals that regional discrepancy between Istanbul city and rest of Turkey is tremendous. Financialization of economy further increased inequality concerning market participation in economy and degree of benefiting from financial resources. In this context, financial data becomes a significant indicator of social inequalities.

To sum up, facilities of financial system corresponds to human needs as money is used as a means for realization of desires. However, money is not only a medium for image, but also can be seen as a component of human interaction. In an economically quickly developing affluent society that is characterized by distinct consumption behavior, money becomes a decisive social indicator. What Turkey has been experiencing since the transition of 1980 was not a changing course of economic history but a social re-structuring encompassing all strata of the society. The moral decay in the financial system, circumventing the democratic mechanisms from economic decision-making processes and deepening social inequalities represent particular patterns of new economic form, namely, the financialized way of living.

REFERENCES

Ahmad, Feroz. 1995. **Modern Türkiye'nin Oluşumu**. Kaynak Yay. İstanbul.

Akgüç, Ö. 1989. **100 Soruda Türkiye'de Bankacılık**, GerçekYayınevi, İstanbul.

Alper,E and Öniş, Z. 2001. "Financial Liberalization, Democratic Deficits and Recurring Crises in Emerging Markets: The Turkish Experience in Aftermath of Capital Account Liberalization."

Alper,E and Öniş, Z. 2002. "Soft Budget Constraints, Government Ownership of Banks and Regulatory Failure: The political Economy of Turkish Banking System in the Post-capital Account Liberalization Era."

Alper,E and Öniş, Z. 2004. "The Turkish Banking System, Financial Crises and The IMF in The Age of Capital Account Liberalization: A Political Economy Perspective". *New Perspectives on Turkey*, Spring 30, pp.25-54.

Arrighi, G. 1994. **The Long Twentieth Century: Money, Power and Origins of Our Times**. Routledge.

Arrighi, G. 1997. "Globalization, State Sovereignty and the Endless Accumulation of Capital". Paper presented at the Conference on *States and Sovereignty in the World Economy,* University of California, Irvine, Feb. 21-23, 1997

Artun, T. 1983. **İşlevi, Gelişimi, Özellikleri ve Sorunlarıyla Türkiye'de Bankacılık**, Tekin Yayınevi, İstanbul.

Backhaus, J. 1999. "Money and its Economic and Social Functions: Simmel and European Monetary Integration - Statistical Data Included". *American Journal of Economics and Sociology,* Oct.1999

Banking Regulation and Supervision Agency, **Annual Report**, 2003.

Bellofiore, R. 1998. **Marxian Economics: A Reappraisal : Essays on Volume III of Capital : Method, Value and Money.** St.Martin's Press.

Betil, İ. 2002. **Hafiften Bankacılık**. Ana Yayıncılık, Istanbul.

Boratav, K. 2003. **Türkiye İktisat Tarihi 1908-2002.** İmge Kitabevi. Ankara.

Boratav, K. Yeldan.E and Köse, A. 2002. “Globalization, Distribution and Social Policy: Turkey, 1980-1998”. *CEPA Working Paper Series* I, Paper no.20, February.

Boratav, K. Yeldan.E. 2001. “Turkey 1980-2000: Financial Liberalization, Macroeconomic (In)Stability and Patterns of Distribution”. December.

Brunhoff, S. 1998. “Money, Interest and Finance in Marx’s Capital”, in **Marxian Economics: A Reappraisal**, Vol.1. (ed) Ricardo Bellofiore. McMillan Press Ltd.

Buğra, A. 1997. **Devlet ve İşadamları.** İletişim Yayınları. Istanbul.

Çavdar, T. 2003. **Türkiye’nin Demokrasi Tarihi (1950-1990)**, İmge Kitabevi, Ankara.

Çelebican, G. 1982. “Atatürk Döneminde Para ve Kredi Siyaseti ve Kurumlaşma Hareketi” in **Atatürk Dönemi Ekonomi Politikası ve Türkiye’nin Ekonomik Gelişmesi Semineri**. Ankara Üniversitesi Siyasal Bilgiler Fakültesi Yay. Ankara.

Deflem, M. 2003. “The Sociology of the Sociology of Money”. *Journal of Classical Sociology*, Vol 3(1):67-96.

Demirkol, Ö. 2000. “Korea in 1997 and Turkey in 1994: How Did The Crisis Happen?” *Hazine Dergisi*, January, pp.51-65.

Eğilmez, M. Kumcu E. 2001. **Krizleri Nasıl Çıkardık?** Creative Yayıncılık. İstanbul.

Eğilmez, M. Kumcu E. 2003. **Ekonomi Politikası - Teori ve Türkiye uygulaması.** Creative Yayıncılık. İstanbul.

Eldem, E. 1999. **A History of the Ottoman Bank.** Ottoman Bank Historical Research Center, İstanbul.

Eldem, V. 1994. **Osmanlı İmparatorluğunun İktisadi Şartları Hakkında Bir Tetkik**, Türk Tarih KurumuYayınları, Ankara.

Ertuğrul, A. Selçuk, F. 2001. “A Brief Account of Turkish Economy, 1980-2000”. *Russian and East European Finance and Trade*, vol. 37, no. 6, 2001, pp. 6-28.

Davies, G. 2002. **A History of Money.** University of Wales Press

Giddens, A. 1971. **Capitalism and Modern Social Theory: an analysis of the writings of Marx, Durkheim and Max Weber**. Cambridge University Press.

Goldfrank, W. 2000. “Paradigm Regained? The Rules of Wallerstein’s World-System Method”, *Journal of World-Systems Research*, V I, 2, pp.150-195.

Hale, W. 1981. **The Political and Economic Development of Turkey**. Croom Helm Pub. London.

Hilferding, R. 1995. **Finans Kapital.** Belge Yay.

Hutchinson, F. Mellor, M. 2004. "Capitalist Malestream Monetised Markets versus Social Provisioning: Proposals for The Socialization of Economy". Paper Presented to ASE World Congress, Albertville, France.

Ingham, J. 1996. "Money is a Social Relation". *Review of Social Economy*, 54(4).

Karacan, A.İ. 2002(a). **Özerk Kurumlar Üzerine Denemeler.** Creative Yayıncılık, İstanbul.

Karacan, A.İ. 2002(b). **Mali Piyasalar Üzerine Denemeler.** Creative Yayıncılık, İstanbul.

Kelkitlioğlu, M. 2001. **Hortum – Egebank Nasıl Soyuldu?** Metis Yayınları. İstanbul.

Kepenek, Y. Yenitürk, N. 2003. **Türkiye Ekonomisi**. Remzi Kitabevi. İstanbul.

Kılıçbay, A. 1992. **Türk Ekonomisi**. Türkiye İş Bankası Kültür Yay. İstanbul.

Kipal,U. Uyanık, Ö. 2001. **Türkiye Milli İktisat Tarihi**. Kaynak Yay. İstanbul.

Kocabaşoğlu, U (Ed). 2001. **Türkiye İş Bankası Tarihi.** Türkiye İş Bankası Kültür Yayınları. Istanbul.

Kumcu, E. 1997. "Ekonominin Hamalı Bankacılık Sektörü". *Görüş Dergisi*, April pp.26-31.

Kumcu, E. 2000. **Ercan Kumcu'nun Kaleminden Türkiye'de İstikrar Arayışları**. Doğan Yayıncılık. İstanbul.

Marx, K. 1861. **Grundrisse**. Translated by Martin Liclaus. Penguin books, 1973.
Internet source: http://www.marxists.org/archive/marx/works/1857/grundrisse

Marx, K. 1867. **Capital, Vol.1**. Translated by Moore and Aveling. Progress Publisher, 1887.
Internet source: http://www.marxists.org/archive/marx/works/1867-c1/index.htm

Marx, K. 1878. **Capital, Vol.2**. Translated by I. Lasker. Progress Publisher, 1956.
Internet source: http://www.marxists.org/archive/marx/works/1885-c2/index.htm

Marx, K. 1883. **Capital, Vol.3**. (Ed. by F. Engels). Institute of Marxism-Leninism, 1959.
Internet source: http://www.marxists.org/archive/marx/works/1894-c3/index.htm

Monroe, A. E. 1966. **Monetary Theory Before Adam Smith**. A.M. Kelley Publishers, New York.

Musgrave, R.A. and P. 1989. **Public Finance in Theory and Practice**. McGraw-Hill.

Öcal, T. 1973. **Türk Banka Sistemi.** Ankara İktisadi ve Ticari İlimler Akademisi Yay. Ankara

Ökçün, G. 1997. "1923 Yılında İzmir'de Toplanan İzmir İktisat Kongresinde Kabul Edilen Esaslar" in **İktisat Tarihi Yazıları**. Sermaye Piyasası Kurulu Yay. Ankara.

Ökçün, G. 1975. "1909-1930 Yılları Arasında Anonim Şirket Olarak Kurulan Bankalar", in **Türkiye İktisat Tarihi Semineri Metinler/Tartışmalar**, ed. Osman Okyar, Hacettepe Üniversitesi Yayınları /C13.

Öniş, Z. 1998. **State and Market – The Political Economy of Turkey in Comparative Perspective**. Boğaziçi University Press, Istanbul.

Öniş, Z. 2003. "Domestic Politics versus Global Dynamics: Towards a Political Economy of the 2000 and 2001 Financial Crises in Turkey", in **The Turkish Economy in Crisis,** ed. Z. Öniş and B. Rubin. Frank Cass Pub. London.

Öniş, Z. 2004. "Turgut Özal and His Economic Legacy: Turkish Neo-Liberalism in Critical Perspective"

Özatay, F. "1994 Currency Crisis in Turkey".

Pamuk, Ş. 2000. **A Monetary History of Ottoman Empire**. Cambridge University Press.

Pixley, J.F. 1999. "Beyond Twin Deficits: Emotions of the Future in the Organization of Money". *The American Journal of Economies and Sociology*. Oct 1999.

Pope, N. Pope, H. 1997. Turkey Inveiled: Atatürk and After. John Murray Pub. London.

Şahin, H. 2000. **Türkiye Ekonomisi, Tarihsel Gelişimi-Bugünkü Durumu**. Ezgi Kitabevi Yay. Bursa.

Salman, E. 2000. "Türkiye Kurullara Teslim". *Ekonom*, April, no.15.

Screpanti, E. Zamagni, S. 1993. **An Outline of the History of Economic Thought**. Oxford University Press.

Simmel, G. 1907. **The Philosophy of Money** (Trans. by Tom Bottomore), ed. David Frisby (1990), Routledge.

Simmel, G. 1900. "A Chapter in the Philosophy of Value". *American Journal of Sociology*, Vol V.

Simmel, G. 1950. "Metropolis and Mental Life". Adapted by D. Weinstein from Kurt Wolff (Trans.) **The Sociology of Georg Simmel**. New York Free Press.

Sönmez, M. 1987. **Kırk Haramiler: Türkiye'de Holdingler**, Arkadaş Yayınevi.

Sweezy, P. 1997. "More (Or Less) on Globalization". *Monthly Review*, September, Vol.49. no.9.

Sweezy, P. 1994. "The Triumph of Financial Capital". *Monthly Review*, June, Vol.46. no.2.

Tartan, H. 2003. **Hortumun Ucundakiler**. Creative Yay. İstanbul

Tekeli, İ – İlkin, S. 1997. **Para ve Kredi Sisteminin Oluşumunda Bir Aşama: Türkiye Cumhuriyet Merkez Bankası**. TCMB Yay. Ankara

Tezel, Y. S. 1986. **Cumhuriyet Döneminin İktisadi Tarihi (1923-1950)**, Yurt Yayınları, Ankara.

Toprak, Z. 1982. **Türkiye'de Milli İktisat 1908-1918**, Yurt Yayınları, Ankara.

Tulay, B. Alparslan, M. and Erdönmez, P. 2002. "Mevduat Sigorta Sistemi'nin Çeşitli Ülkelerde ve Türkiye'de Uygulanması". Türkiye Bankalar Birliği Bankacılık Araştırma Grubu.

Türkiye Bankalar Birliği (TBB), **Bankalarımız Kitabı**, 2002.

Türkiye İş Bankası İktisadi Araştırmalar Müdürlüğü. 1973. **Planlı Dönemde Bankacılık ve Başlıca Bankalarımız.** İş Bankası Yay.

Türk, İ. 1982. "Atatürk ve Türk Mali Sistemi" in **Atatürk Dönemi Ekonomi Politikası ve Türkiye'nin Ekonomik Gelişmesi Semineri**. Ankara Üniversitesi Siyasal Bilgiler Fakültesi Yay. Ankara

Wallerstein, I. 1999. "Globalization or the Age of Transition? A long-term view of the Trajectory of World-System"

Weber, M. 1958. **The Protestant Ethic and the Spirit of Capitalism.** Trans. by Talcott Parsons. Scribner. New York.

Weber, M. 1964. **The Theory of Social and Economic Organization.** Trans. by A.M. Henderson and T. Parsons. Free Press. New York.

Yazgan, T. 1969. **Türkiye'de Bankacılığın Gelişimi**. Baylan Yay. Ankara.

Yeldan, E. Balkan, E. Biçer, G. 2002. "Patterns of Financial Capital Flows and Accumulation in The Post-1990 Turkish Economy". *METU International Conference on Economics*, VI, September.

Yıldırım, S.D. 1997. **Establishment and Design of a Financial Futures-Options Market in Turkey.** SPK Yayınları, Yayın no.69. Ankara.

Zarakolu, A. 1974. **Cumhuriyetin 50. Yılında Memleketimizde Bankacılık.** TBB Yay. Ayyıldız Matbaası. Ankara.

APPENDICES

APPENDIX A

FOREIGN AND MINORITY BANKS THAT ARE FORMED AS JOINT-STOCK COMPANY BETWEEN 1909 AND 1923

THE BANKS THAT ARE FORMED BY FOREIGN ENTREPRENEURS				
NAME	YEAR OF ESTABLISHMENT	CENTER OF MANAGEMENT	NATIONAL ALIGNMENT	PAID-IN CAPITAL IN FOUNDATION
Türkiye Milli Bankası	1909	İstanbul	ENGLAND	1.100.000
İtibar-ı Mali Osmanlı Anonim Şirketi	1910	İstanbul	FRANCE	110.000
Türkiye Ticaret ve Sanayi Bankası	1910	İstanbul	BELGIUM	96.000
Şirket-i Ticariyye, Sınaiyye ve Maliyye	1913	İstanbul	unidentified	10.000
Emval-i Gayrimenkule ve İkrazat Bankası Osmanlı A.Ş.	1915	İstanbul	GERMANY	15.000
Türkiye Umumi Bankası	1918	İstanbul	HUNGARIA	50.000
Ticaret ve Sanayi Türkiye ve İran Bankası Anonim Şirketi	1921	İstanbul	IRAN	200.000
THE BANKS THAT ARE FORMED BY MINORITY ENTREPRENEURS				
Osmanlı Ticaret Bankası	1911	İstanbul	ARMENIAN	100.000
Dersaadet İstanbul Küçük İkrazat Sandığı T.A.Ş.	1923	İstanbul	HEBREWS IN TURKEY	50.000

APPENDIX B

DEVELOPMENTS IN NATIONAL BANKING (1924 -1930)

YEARS	NUMBER OF NATIONAL BANKS	NUMBER OF BRANCHES	PAID-IN CAPITAL	PROFIT
1924	19	332	21.910	1.102
1925	23	338	26.471	2.923
1926	24	329	33.094	4.333
1927	31	321	35.501	3.109
1928	39	312	44.257	4.616
1929	43	311	48.683	5.574
1930	44	319	53.340	3.259

Source: İstatistik Yıllığı, Cilt 12. Ankara, 1939-1940
(*) Ottoman Bank, Salonica Bank and Istanbul Security Box are excluded

APPENDIX C-1

Percentage Shares of Foreign, Turkish Private and State Banks in the Turkish Financial System (1924 – 1950)

	% SHARES IN TOTAL DEPOSITS			% SHARES IN TOTAL LOANS		
	FOREIGN BANKS	TURKISH PRIVATE BANKS	TURKISH STATE BANKS	FOREIGN BANKS	TURKISH PRIVATE BANKS	TURKISH STATE BANKS
1924	78	12	10	53	5	42
1924 - 1929	57	20	23	47	15	39
1930 - 1934	30	27	43	32	23	45
1935 - 1938	22	35	43	25	26	49
1939 - 1945	19	33	48	15	28	57
1946 - 1950	17	39	44	13	28	59
1950	14	41	45	12	30	58

* Cumhuriyet Donemi Iktisadi Tarihi, Yahya Sezai Tezel. Yurt Yay. 1986. S.113

APPENDIX C-2

Allocation of Bank Loans Between Sectors (1924 – 1950)

	AGRICULTURE	BUSINESS AND INDUSTRY	RETAIL LOANS	PUBLIC INVESTMENTS
1924	14	79	-	7
1924 - 1929	14	78	1	7
1930 - 1934	18	71	4	7
1935 - 1938	15	73	3	9
1939 - 1945	15	46	3	35
1946 - 1950	26	49	5	20
1950	31	47	5	17

* Cumhuriyet Donemi Iktisadi Tarihi, Yahya Sezai Tezel. Yurt Yay. 1986. S.114

APPENDIX D:

An Overview of Main Indicators of Banking System

RATIOS (%)	1960	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Tot.Assets/GNP	41,5	43,5	42,6	31,4	37,2	41,7	45,2	45,3	43,9	49,4	55,1	52,9	47,3
Tot. Deposits/GNP	16,9	18,3	21,7	15,4	20,6	24,2	24,5	26,6	28,2	30,9	32,2	29,7	27,1
Tot. Loans/GNP	21,0	23,3	25,5	16,8	20,1	20,8	21,4	17,7	18,4	22,5	24,9	21,5	20,0

RATIOS (%)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Tot.Assets/GNP	43,3	47,0	50,7	52,9	52,3	52,8	60,6	65,3	69,5	92,2	82,6	92,7	78,0
Tot. Deposits/GNP	24,3	26,4	27,9	27,5	33,0	34,3	41,6	42,2	45,6	61,7	54,3	65,3	50,4
Tot. Loans/GNP	20,4	20,6	21,2	21,9	20,4	22,5	26,1	29,7	26,6	27,8	27,2	22,8	17,9

Source: Banks Association of Turkey, Banking Regulation and Supervision Agency (Arranged)

APPENDIX E-1:

Banks Remaining Unders SDIF by 31.12.2003

Bank	Last Majority Shareholder	Date of Transfer to the SDIF	Status by 31.12.2004
Egebank	Yahya Murat Demirel	21.12.1999	Merged into Sumerbank on January 26, 2001.
Yurtbank	Balkaner Group	21.12.1999	Merged into Sumerbank on January 26, 2001.
Yaşarbank	Yaşar Group	21.12.1999	Merged into Sumerbank on January 26, 2001.
Bank Kapital	Ceylan Group	27.10.2000	Merged into Sumerbank on January 26, 2001..
Ulusalbank	Epehesus Co.	28.02.2001	Merged into Sumerbank on April 17, 2001.
Interbank	Nergis Group	07.01.1999	Merged into Etibank on June 15, 2001.
Esbank	Zeytinoğlu Group	21.12.1999	Merged into Etibank on June 15, 2001
İktisat Bankası	Erol Aksoy	15.03.2001	Banking and deposit taking license was revoked as of December 7, 2001 and the liquidation process initiated. Upon the resolution adopted in the General Assembly Meeting on April 04, 2002 the liquidation decision was revoked and the Bank was merged under Bayindirbank.
Kentbank	Süzer Group	09.07.2001	Banking and deposit taking license was revoked as of December 28, 2001 and the liquidation process initiated. Upon the resolution adopted in the General Assembly Meeting on April 04, 2002 the liquidation decision was revoked and the Bank was merged into Bayindirbank.
EGS Bank	EGS Group	09.07.2001	Banking and deposit taking license was revoked as of January 18, 2002 and merged into Bayindirbank as of the same date.
Etibank	Medya Group	27.10.2000	Banking and deposit taking license of the bank was revoked as of December 28, 2001 and the liquidation process initiated. Upon the resolution adopted in the General Assembly Meeting on April 04, 2002 the liquidation decision was revoked and the Bank was merged into Bayindirbank.
Toprakbank	Toprak Group	30.11.2001	Banking and deposit taking license of the bank was revoked as of September 30, 2002 and merged into Bayindirbank as of the same date.
Bank Ekspres	Korkmaz Yiğit	12.12.1998	Sold to the Tekfen Holding on June 30, 2001. The transfer was approved by the BRSA on October 26, 2001. Operating as Tekfenbank A.Ş..
Demirbank	Cıngıllı Holding Co.	06.12.2000	Sold to HSBC on September 20, 2001. Approval of the transfer was made on October 30, 2001.
Sümerbank	Garipoğlu Group	21.12.1999	Merged Sumerbank was sold to the OYAK Group on August 9, 2001. Merger of Sumerbank and Oyakbank was approved on January 11, 2002. Operating as Oyakbank.
Sitebank	Sürmeli Group	09.07.2001	A share transfer agreement was signed with Novabank on December 20, 2001. The transfer procedure was carried out on January 25, 2002.
Tarişbank	Tarişbank	09.07.2001	The share transfer agreement regarding the acquisition by Denizbank A.S. was signed on October 21, 2002. Actual share transfer was completed as of October 25, 2002. The merger of Tarişbank with Denizbank A.Ş. was approved by the BRSA on December 19, 2002 and merger was finalized on December 27, 2003.
Türkbank	Türk Ticaret Bankası Emekli Sandığı Vakfı	06.11.1997	In the Extraordinary General Assembly Meeting held on August 09, 2002, dissolution and liquidation of the bank was decided and liquidation decision was approved on August 14, 2002 by the Trade Registry and published in the Trade Register Gazette Nr. 5616 dated August 19, 2002. Liquidation balance sheet as of August 14, 2002 of the bank, liquidation proceedings of which continue, was approved in the Extraordinary General Assembly Meeting dated April 09, 2003 and new liquidation officers were assigned. The Liquidation Board decided all branches be closed at systems basis upon its resolution dated December 1, 2003, and the cancellation of employment contracts of all the personnel upon its resolution dated December 2, 2003.
Kıbrıs Kredi Bankası	Salih Boyacı	27.09.2000	Liquidation proceedings continue.
İmar Bankası	Uzan Group	03.07.2003	License of İmar Bank to perform banking activities and accept deposits were revoked upon the decision Nr: 1085 dated July 03, 2003 of the Banking Regulation and Supervision Board, pursuant to Article 14 /3 of the Banks' Act Nr. 4389 and the management and control hereof was transferred to the SDIF. Liquidation proceedings continue.
Bayındırbank	Bayındır Holding Co.	09.07.2001	It is being restructured as a bridge bank which will perform asset management function.
Pamukbank	Çukurova Group	19.06.2002	With the resolution Nr. 978 dated January 31, 2003 of the Banking Regulation and Supervision Board and resolution Nr. 61 dated January 31, 2003 of the Board of Directors of the Savings Deposit Insurance Fund, the contract as regards restructuring of the debts of Cukurova Group to Pamukbank and Yapi ve Kredi Bank was signed by the BRSA/SDIF and Cukurova Group on January 31, 2003. Two investor groups made an offer to the bank, the sale process of which was re-started, however, these offers were deemed inadequate by the SDIF Board on December 29, 2003 and activities towards the resolution of the bank through merger with a state bank were initiated.
Sources:	SDIF Annual Report, 2003		
	Bankacılık Sektörü Yeniden Yapılandırma Programı Gelişme Raporu, no.VII, October 2003, BRSA		

APPENDIX E-2:

Legal Basis of Bank Transfers o the SDIF

Capital inadequacy and weak financial structure according to Article 64/2 of Banks' Act no.3182(1)	Capital inadequacy and weak financial structure according to Article 14/3 of Banks' Act no.4389 (2)	Corporate mismanagement and illegal banking operations according to Article 14/3 and 4 of Banks' Act no.4389(3)
Türkbank	Yaşarbank	Egebank
Bank Ekspres	Demirbank	Yurtbank
Interbank	Sitebank	Sümerbank
	Ulusalbank	Esbank
	Tarişbank	Etibank
	İmar Bankası	Bank Kapital
	Kıbrıs Kredi Bankası	İktisat Bankası
		Bayındırbank
		Kentbank
		EGS Bank
		Toprakbank
		Pamukbank

Sources: SDIF Annual Report, 2003
Banks' Act no.3182
Banks' Act no.4389

(1): The Act no.3182 (1985) authorized the Board of Sworn Bank Auditors associated with the Treasury to examine banks' legal compliance and their financial standing. Banks identified as performing in an "unsatisfactory" manner were reported to the Ministery of Economic Affairs, who typically placed the bank under the surveillance of the Treasury. But there is no precise identification of fraud or looting in this article and the regulatory mechanism was prone to political intervention. The three bank that are taken over according to this article were actually looted by their majority shareholders

(2)The Act no.4389 (1999) empowered BRSA in all issues of banking regulation and supervision. Article no.14/3 is about the precautions to be taken in case the bank has failed in capital adequacy and proven insolvent due to weakening of financial structure. This article does not signify corruption or fraud in describin precautions and sanctions. İmar Bankası, although being looted by its majority shareholder Uzan Group, has taken over by this article to minimize its transfer expenses.

(3) The Article no.14/4 of Banks Act no.4389 identifies the abuse of bank resources by majority shareholders and managers of the bank. All the banks under this Article heading are transferred to SDIF according to fraud and looting of banks's resources.

APPENDIX F:

Bankers and Media Institutions that They Own

The Banker	The Bank(s)	Major Media Institutions
Korkmaz Yiğit	Bankekspres	Kanal E, Genç TV, Yeni Yüzyıl, Milliyet
Cavit Çağlar	Interbank	NTV, Olay TV
Dinç Bilgin	Etibank	ATV (In ass. With T. Ciner) Sabah, Takvim, Yeni Asır
Erol Aksoy	İktisat Bankası	Show TV, Cine 5
Mehmet E. Karamehmet	Pamukbank Yapı Kredi	Show TV, SkyTurk, Digiturk Akşam, Güneş, Tercüman
Uzan Group	İmar Bankası Adabank	Star TV, Kanal 6, Kral TV Star Gazetesi
Ceylan Group	Bankkapital	CTV
Kamuran Çörtük	Bayındırbank	BRT
Mustafa Süzer	Kentbank	Kent TV

Source: Hortumun Ucundakiler. Hakan TARTAN, 2003. p.464-465

APPENDIX G (Three Parts):

Ownership Status of Major Turkish Private Banks of Post-1980 Era

	Before 1980	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
OSMANLI BANKASI A.Ş. (1863-2002)	**Group Paribas**																	**Doğuş Group**						**Merged to Garanti B.**	
INTERBANK A.Ş. (1888-1999)	**Çukurova Group**																	**Cavit Çağlar**			**SDIF**		**Merged to Etibank**		
TARİŞBANK (MİLLİ AYDIN BANKASI) A.Ş. (1913-2001)	**Independent**																				**Yaşar Group**		**SDIF**		
TÜRK TİCARET BANKASI A.Ş (TÜRKBANK) (1919-1997)	**Independent**																		**SDIF**						
TÜRKİYE İŞ BANKASI A.Ş. (1924-...)	**İş Bankası Holding**																								
TÜRKİYE TÜTÜNCÜLER BANKASI (YAŞARBANK) A.Ş. (1924-2001)	**Yaşar Group**																				**SDIF**		**Merged to Sümer Bank**		
ESBANK (1927-1999)	**Zeytinoğlu Group**																						**SDIF**		
İKTİSAT BANKASI T.A.Ş (1927-2001)	**Erol Aksoy**																						**SDIF**		
TÜRK EKONOMİ BANKASI A.Ş. (1927-...)	**Independent**			**Çolakoğlu Group**																					
EGEBANK A.Ş (1928-1999)	**Hüseyin Bayraktar**																			**Demirel Group**	**SDIF**		**Merged to Sümer Bank**		
TÜRKİYE İMAR BANKASI T.A.Ş. (1928-2003)	**Independent**					**Uzan Group**																			**SDIF**
SÜMERBANK A.Ş. (1933-1999)	**State Owned Enterprise**																		**Garipoğlu Group**		**SDIF**			**Merged to Oyakbank**	
ETİBANK (1935-2000)	**State Owned Enterprise**																		**Cavit Çağlar**			**SDIF**		**Merged to Bayındır Holding**	
DENİZBANK A.Ş. (1937-...)	**State Owned Enterprise**																		**Zorlu Holding**						
YAPI VE KREDİ BANKASI A.Ş. (1944-...)	**Çukurova Group**																								
TÜRKİYE GARANTİ BANKASI A.Ş. (1946-...)	**Independent**				**Doğuş Group**																				
Sources:	BRSA Annual and Monthly Reports 2000-2003. BRSA Press releases, TBB Bankalarımız Kitabı 2002. SDIF Annual Reports 2002-2003, Akgüç (1989), Artun (1983), Sönmez (1987), Zarakolu (1984)																								

	Before 1980	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
AKBANK T.A.Ş. (1948-...)	**Sabancı Group**																								
DEMİRBANK A.Ş (1953-2000)	**Cıngıllı Holding**																					**SDIF**	**HSBC**		
ŞEKERBANK T.A.Ş. (1954-...)	**Independent**																								
PAMUKBANK T.A.Ş. (1955-2002)	**Çukurova Group**																							**SDIF**	
ESNAF KREDİ BANKASI (1957-...)	**State Owned Enterprise**																		**Cavit Çağlar**			**Bilgin Group**			
BAYINDIRBANK A.Ş. (1958-2001)	**Çaybank**																		**Bayındır Group**				**SDIF**		
TÜRK DIŞ TİC. BANKASI A.Ş. (DIŞBANK) (1964-...)	**Amerikan-Türk Dış Tic. Bankası**															**Doğuş Group**									
KOÇBANK A.Ş. (1981-...)			**American Express IBC**					**Koç Group**																	
İMPEXBANK (T. İTHALAT VE İHRACAT BANKASI) A.Ş (1984-1994)						**Can Eliyeşil**										**SDIF**									
OYAK BANK A.Ş. (1984-...)						**Bank of Boston**									**OYAK Group**										
ADABANK A.Ş. (1985-...)							**Uzan Group**																		
FİBA BANK A.Ş. (1985-2003)							**Chemical Mitsui**														**FİBA Group**				**Merged to Finans bank**
BANK KAPİTAL A.Ş. (1986-2000)								**Banque Indosuez**									**Ceylan Group**					**SDIF**	**Sümer Bank**		
TEKSTİL BANKASI A.Ş. (1986-...)								**Akın Group**																**GSD Group**	
FİNANSBANK A.Ş. (1987-...)									**Fiba Group**																
MARMARA BANKASI (MARMARABANK) A.Ş (1987-1994)									**Atilla Uras**							**SDIF**									
Sources:	BRSA Annual and Monthly Reports 2000-2003. BRSA Press releases, TBB Bankalarımız Kitabı 2002. SDIF Annual Reports 2002-2003, Akgüç (1989), Artun (1983), Sönmez (1987), Zarakolu (1984)																								

	Before 1980	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
BİRLEŞİK TÜRK KÖRFEZ BANKASI A.Ş. (1988-2002)										**Doğuş & Katarlı**													**Doğuş Group**		
TYT BANK (1988-1994)										**Lapis Holding C.**						**SDIF**									
TEKFENBANK A.Ş. (1989-...)											**Tekfen Group**														
ALTERNATİF BANK A.Ş. (1992-...)														**Doğan Group**				**Anadolu Group**							
BANK EKSPRES A.Ş. (1992-1998)														**İbrahim Betil**		**Doğuş Group**			**Yiğit Group**	**SDIF**			**Tekfen Group**		
KENTBANK A.Ş. (1992-2001)														**Süzer Group**									**SDIF**	**Merged to Bayındır Bank**	
TOPRAKBANK A.Ş. (1992-2002)														**Toprak Holding**										**SDIF**	
YURTBANK A.Ş. (1993-1999)															**Eurocredit**			**Balkaner group**			**SDIF**				
EGS BANK A.Ş. (1995-2001)																	**EGS Holding**						**SDIF**		
ANADOLUBANK A.Ş. (1997-...)																			**Habaş Group**						
SİTEBANK A.Ş. (1997-2001)																			**Sürmeli Group**				**SDIF**		
DİLER YATIRIM BANKASI A.Ş. (1998-...)																				**Yazıcı & Diler**					
GSD YATIRIM BANKASI A.Ş. (1998-...)																				**GSD Group**					
OKAN YATIRIM BANKASI A.Ş. (1998-2001)																				**Okan Group**				**SDIF**	
C KREDİ VE KALKINMA BANKASI A.Ş. (1999-...)																					**Toprak Group**		**SDIF**	**Cıngıllı Group**	
ÇALIK YATIRIM BANKASI A.Ş. (1999-...)																					**Çalık Group**				
NUROL YATIRIM BANKASI A.Ş. (1999-...)																					**Nurol Group**				
Sources:	BRSA Annual and Monthly Reports 2000-2003. BRSA Press releases, TBB Bankalarımız Kitabı 2002. SDIF Annual Reports 2002-2003, Akgüç (1989), Artun (1983), Sönmez (1987), Zarakolu (1984)																								