DEBT MANAGEMENT AND FINANCIALISATION AS FACETS OF STATE RESTRUCTURING: THE CASE OF TURKEY IN THE POST-1980 PERIOD

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ABSTRACT

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This dissertation analyses the restructuring of the state and financialisation in Turkey in the post-1980 period with specific emphasis on public debt management. Turkey provides a model case of state pioneering financial deepening and intervening into the market for the socialisation of the losses of the financial sector. The dissertation argues that despite the increasing public debt ratio through 1980s and 1990s, the aim of financial deepening was persistent. The state contributed to the financialisation in the 1990s through the dominance of public securities with high yields in the market. The Treasury was a nodal point not only in the restructuring of the banking sector in the aftermath of 2001 crisis but also the insulation of economic management from political intervention. Its success is tightly related to financial markets and its restructuring presents a case of identification of public interest with the interest of financial sector. The literature on financialisation should be extended to cover the neoliberal transformation in countries labelled as "emerging markets". The restructuring of the state in neoliberal era can be defined as financialisation of the state from a broader perspective. It contributed to financialisation by making the state rely on financial markets in an increasing number of policy fields.

Keywords: Financialisation, State Restructuring, Political Economy of Turkey, Treasury, Public Debt

ÖZ

DEVLETİN YENİDEN YAPILANDIRILMASININ VEÇHELERİ OLARAK BORÇ YÖNETİMİ VE FİNANSALLAŞMA: 1980 SONRASI TÜRKİYE ÖRNEĞİ

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Bu tez 1980 sonrası dönemde Türkiye'de devletin yeniden yapılandırılmasını ve finansallaşmayı özellikle kamu borç yönetimine odaklanarak analiz etmektedir. Türkiye, devletin finansal derinleşmeye öncülük etmesi ve finansal sektörün kayıplarının toplumsallaştırılması için piyasaya müdahale etmesinin bir örneğini teşkil etmektedir. Bu çalışma, 1980'ler ve 1990'lar boyunca artan kamu borç oranlarına karşın finansal derinleşme amacının varlığını ileri sürmektedir. Devlet 1990'larda yüksek getirili kamu borç kâğıtlarının piyasalardaki hâkimiyeti dolayımıyla finansallaşmaya katkıda bulunmuştur. Hazine sadece 2001 krizi sonrası bankacılık sektörünün yeniden yapılandırılmasında değil aynı zamanda ekonomi yönetiminin siyasal müdahalelerden yalıtılmasında da kilit öneme sahiptir. Başarısı finansal piyasalara sıkıca bağlıdır ve yeniden yapılandırılma süreci kamusal çıkarın finansal sektör çıkarlarıyla özdeşleştirilmesinin bir örneğini teşkil etmektedir. Finansallaşma literatürü "yükselen piyasalar" olarak adlandırılan ülkelerdeki neoliberal dönüşümü de kapsayacak şekilde genişletilmelidir. Devletin neoliberal dönemde yeniden yapılandırılması geniş bir açıdan devletin finansallaşması olarak ele alınabilir. Bu süreç, artan oranda politika alanında devleti finansal piyasalara dayanmak durumunda bırakarak finansallaşmaya katkıda bulunmuştur.

Anahtar Kelimeler: Finansallaşma, Devletin Yeniden Yapılandırılması, Türkiye'nin Siyasal İktisadı, Hazine, Kamu Borcu

To my family, friends and those who suffer the most from financialisation

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ABBREVIATIONS

BIS	Bank of International Settlements
BRSA	Banking Regulation and Supervision Agency
BW	Bretton Woods
CB	Central Bank of the Republic of Turkey
CDO	Collateralised Debt Obligation
CDS	Credit Default Swap
CMB	Capital Markets Board of Turkey
CRA	Credit Rating Agency
CRESC	Centre for Research on Socio-cultural Change
CSE	Conference of Socialist Economists
CTLD	Convertible Turkish Lira Deposits
ESI	Economic and Social Indicators
EU	European Union
FDI	Foreign Direct Investment
FX	Foreign Exchange
GDI	Government Debt Instruments
GDP	Gross Domestic Product
GNP	Gross National Product
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
ISE	Istanbul Stock Exchange
IT	Inflation Targeting
JDP	Justice and Development Party
MNC	Multinational Corporation
NBFI	Non-bank Financial Institution
NFC	Non-Financial Corporation
NIFA	New International Financial Architecture
OMO	Open Market Operations
OTC	Over-the-Counter
OTD	Originate-to-Distribute

PSBR	Public Sector Borrowing Requirement
SDIF	Savings Deposit and Insurance Fund
SEE	State Economic Enterprise
TSPAKB	The Association of Capital Market Intermediary Institutions of Turkey
US	United States
UT	Undersecretariat of Treasury
UTFT	Undersecretariat of Treasury and Foreign Trade
WB	World Bank
WST	World Systems Theories

CHAPTER I

INTRODUCTION

Reading and dealing with the literatures on financialisation and state intervention is like playing Alice in Wonderland. It is a world of terms such as "credit default swap" (CDS), "collateralised debt obligation" (CDO), yield of foreign exchange (FX) denominated 5 year government bonds or restructuring of the state, construction of hegemony, depoliticisation and so on. However, if we are "living in Financial Times" as the famous daily suggests and the role of state is critical for bailing out financial sector and the governments assure their voters that there is no alternative, the researcher has no other option than chasing the white rabbit.

When I started writing my proposal in 2008 spring, I was busy reading comments on the possible course of the financial volatility that started first and foremost in the financial centres of the world. Still, my main inclination to provide an explanation of the problem of debt and economic crises in relation to the forms of state intervention in Turkey took me away from an analysis of the intricacies of international financial markets. Only after Prof. Oktar Türel suggested that it would be better to locate Turkey's economic problems in a broader perspective and that I should engage with the critical stream provided by scholars of financialisation, I started to follow more closely the debates on world economy and the international financial crisis of 2007-2009. I had, therefore a serious advantage such as supporting my knowledge about financial markets with a flourishing literature and the enthusiasm during the constant search, at least on the side of scholars, for proposing alternative modes of financial regulation. Within the constraints of an academic study, this however is at the same time a disadvantage since there is always more to follow so as to present a comprehensive analysis.

This has been the case in my quest for a critical definition of the concept of financialisation. The term financialisation has been first used by Kevin Phillips and Giovanni Arrighi in the 1990s, but in loyalty to the habits of Hegel's Owl of Minerva, it has consolidated its place and has been brought to prominence in critical circles in the first decade of 21st century and particularly in the aftermath of the international financial crisis of 2007-2009. The concept is used by various researchers and schools of political economy; from Monthly Review authors (Foster, 2007, 2010) to World System theorists (Arrighi, 1994, 2004, 2009; Arrighi and Silver, 1999), from *Régulation* School scholars (see Boyer, 2000; Aglietta, 2000) to post-structuralist researchers (Langley, 2007, de Goede, 2004) and critical academics (Martin, 2002; Stockhammer, 2004; Blackburn, 2008, 2011; Orhangazi, 2008; Lapavitsas, 2009a; Panitch and Konings, 2009; Marazzi, 2010). The concept explains the processes in which financial transactions became much more important for the global and national economies and it is affiliated with the mechanisms through which these transactions impact upon the organisation of not only economic activity but also social-political sphere and the everyday life. The apparent diversity in research agenda and perspectives make it difficult to define the concept; however, it is generally accepted that the increasing financial assets of non-financial corporations (NFCs), the mounting amount of financial assets relative to Gross Domestic Product (GDP), and the rising levels of private indebtedness (both households and corporations) are symptoms of financialisation (see Epstein, 2005). Before giving an outline and presenting the argument of the study, some of the major focus points of the dissertation should be clarified.

1. 1. Capital as a Social Relation

Financialisation in general and financialisation of the accumulation process in particular should be located within a critical analysis of the capital as a contradictory social relation as well as the world-historical changes in the 20th century. The relationship between the accumulation of wealth and organization of production has been at the forefront of economic inquiry from its inception onwards. Classical political economists attempted to explain the social order of the 18th century and early 19th century by questioning the rapid accumulation of wealth and the concentration of wealth in private hands in the aftermath of industrial revolution. They not only pointed that beneath the value lied labour expended for production but also proposed reforms for a re-design of the relations between the state and the market. Critique of classical political economy, on the other hand, highlighted the contradictions immanent in capitalist production (see Marx, 1996) and the capitalist economy such as the one between the rapid accumulation of wealth and rising inequality. By employing the classical political economy insight that the labour should be seen as the source of wealth within a critical context, Marx for example, was able to show that political economy had discovered what lied beneath the value as a form, but it did not ask the question why labour assumed the value form.

Through the derivation of money-commodity whose use-value is the expression of exchange-value of other commodities, Marx explained the fact that throughout the historical process, a commodity (money) is singled out as the one which expresses the value of other commodities, the labour-time expended in their production. The difficulty lied in the money-form itself whose derivation indicates that the traces left behind in the production of commodities are erased by the radical egalitarian character of money in the sphere of exchange. In this perspective, genesis of capital can be portrayed with an analysis of the circulation of commodities. In other words, we witness a series of metamorphoses in the movement of capital. C-M-C as the first form in the circulation implies to-sell for the acquiring of the use-values necessary. Money is spent and it does not continue its movement under that form. The second form M-C-M, means buying in order to sell. As buying a commodity for acquiring the same amount of money would not make sense, we grasp that the capitalist buys in order to make more. Hence, the formula of capital is M-C-M′ in general. That expresses the surplus appropriated throughout the metamorphoses we are dealing with. M′ equals to M + surplus, namely the surplus value.

The transformation of money into capital, therefore, should be looked at as a permanent movement of money. Money is transformed into commodity and it is later transformed into money that signifies more than the first amount. This implies that the movement of capital has no limits. That is to say, it is capital as long as it moves and entails permanent metamorphosis of commodities. However, this also leads us to the contradictions in the general formula of capital. At first sight, it is obvious that the exchange of commodities is the exchange of commodities that have the same value. The exchange of equals, it is certain that, would not entail the creation of surplus value. Then the capital cannot be created within the sphere of exchange and circulation of commodities. However it is also obvious that the transformation of money into capital is based on the mentioned circulation. Capitalist needs the exchange of commodities in order to accumulate capital.

The change in the amount of value at the hand of capitalist comes from a commodity the capitalist places in the process of production. That commodity, the labour-power whose reproduction is the reproduction of the social life in general and capitalist relations of production in particular, creates the surplus appropriated by the capitalist. The existence of a labour power as a commodity presumes the freedom of labour in two senses of the term. Firstly, the labour must be free from the ownership of the means of production, which means the compulsion of the labourers to sell their labour-power. Secondly, labourer should be free in the sense of having the right on the use of his own labour. So it can be claimed that, commodification of labour-power and wage labour are the essential conditions and the basic features of capitalism. These insights allow Marxian critique go beyond the sphere of circulation of commodities and focus upon the process of production.

This focus helps the Marxian critique to grasp process of capital accumulation and the reproduction of the social relations of production as a contradictory process. The capitalist production is necessarily a process of creating value. This process of creating value and gaining profit is the aim of the capitalist. "[T]he value of labour-power, and the value that labour-power creates in the labour process, are two entirely different magnitudes; and this difference of the two values was what the capitalist had in view, when he was purchasing the labour-power" (Marx, 1996: Chapter 7, Section 1). Marx separates the means of production that do not undergo any quantitative change but transfer all or some parts of their value to the product from the labour-power that undergoes a change in terms of value and produces an excess variable according to circumstances. These means of production are considered as constant capital that have a constant value to be preserved and transferred whereas the labour-power is defined as variable capital, continually transformed into a variable magnitude. The emphasis on the conditions for the transformation of value represented by labour-power into capital is also crucial since it shows that the capitalist has to provide firm conditions for the exploitation of labour. Even if the exploitation rate increases, the profit rates may decline due to fact that the creation of surplus value needs more investment; furthermore class struggle may prevent such profitable exploitation. This contradictory aspect of the capital relation is derived from the relation between constant capital and variable capital. The tendency of constant capital which also can be seen as dead labour embodied in machinery and raw materials; to rise in relation to variable capital which corresponds to living labour power signifies a rise in the cost of exploitation. This process brings about an increase in the organic composition of capital. In such a situation although the exploitation rate increases, the rate of profit declines. Under such circumstance, the capitalist has to implement some strategies. The rise in the rate of surplus value may occur either by an increase in the absolute surplus value or by an increase in the relative surplus value, or by the strategies pursuing both at the same time. An increase in absolute surplus value means increase in working hours or an expansion in workforce while an increase of relative surplus value means the process of reducing the socially necessary labour time through new production methods, organisational and technological developments.

This summary implies that the permanent expansion of capital is the defining feature of capital relation. Capital accumulation depends on the conditions of re-investment of capital into profitable fields and the subordination of wage labour so that the surplus value can be extracted within the process of production. The freedom of labour, mentioned above, implies that “the economic” and “the political” are separated in capitalism; that is, extra-economic coercion does not take place within the capitalist production, conceived in abstract terms. The separation of the economic and the political can be seen as a constitutive element of capitalism and of fundamental importance in terms of the appearance of the capitalist state as a neutral entity or an independent form, despite its internal relation with the other forms assumed by the social relations of production (see Clarke 1992, Bonefeld, 1992 and Wood 2005). The state is defined with reference to the embodiment of the interests of an "illusory community" (Marx and Engels quoted in Bonefeld, 1992: 117; see also Burnham, 2001: 145) due to the character of capital as a social relation and the absence of extra-economic coercion within the process of production, on an abstract level.

1. 2. Financialisation of the Accumulation and State Intervention

The growth of production and the reproduction of capital on an extended scale do not mean the suspension of the contradictions within the capitalist mode of production. Harvey (2001) indicates that the circulation of capital is unstable and capitalism tends to use more dead labour for effective exploitation, while it expands through the use of living labour. In other words, the tendency of the rate of profit to fall comes out of the contradictions of capital. Such tendency is also related with the problem of overaccumulation, i.e. the "accumulation of capital over and above what could be reinvested profitably in established channels of trade and production" (Arrighi, 1999: 237). Global economic crisis in the 1970s can be seen from such a perspective as the reflection of overaccumulation and the emergence of excess capacity related with the inter-capitalist rivalry and competition. The response of capital in such a crisis is to exploit more and/or to search for a spatial fix in other regions, which would provide the basis for the realization of the capital mobility (see Harvey, 2001).

One of the capitalist strategies to evade from the tendency of the rate of profits to fall is the credit expansion. Overcoming the problem of profitability depends on re-investment into profitable outlets and the credit expansion, which would result in increasing household and firm indebtedness at the same time. The financial expansion in the last quarter of the 20th century can be analysed within such a perspective. Neoliberal wage compression contributed to the recovery of profits (McNally, 2009). While the "emerging markets"[1] provided profitable outlets, thanks to neo-liberal restructuring within those societies, firms started betting increasingly on future prices and revenues and parts of the household income were re-directed to the financial markets in the advanced capitalist economies. Indeed, the credit expansion, as seen in the recent international financial crisis and recurrent financial instability in the aftermath of the collapse of postwar international monetary order, meant overcoming the barriers in front of capital accumulation in the face of persistent imbalances in world economy and problems related to international monetary disorder. In other words, the diversion of capital more and more into the financial markets did not overcome the problem of overaccumulation; but brought about the destruction of barriers in front of international capital mobility and recurrent international financial stability.

For McNally (2009), five dynamics are significant in the 1980s and 1990s before the exhaustion of new wave of global accumulation in the late 1990s. These are geographic shifts in manufacturing (significant expansion in lower-wage areas), downward pressure on wages, increases in labour-productivity (relative surplus value) and increases in work hours (absolute surplus value), cuts to social benefits and social assistance programmes. These strategies did not only mean the subordination of labour and worsening circumstances for wage earners, but also were successful in overcoming the profitability problems, albeit temporarily. The proliferation of financial instruments and increase of share of financial sector within the economy during the same period implied the financialisation of relations "between capitals". That is to say, using financial instruments for hedging risk and receiving lucrative profits out of financial investment was an integral part of the operations of business groups and giant firms. Capital flows into "emerging markets" not only in the form of direct investment but also portfolio investment financing the deficits of the economy as well should be analysed with taking into consideration the growing investment opportunities provided within these countries and increasing returns of both private and public securities. Following McNally (2009: 56), it can be suggested that the global imbalances, namely U.S. deficits and dollar glut;

[1] "Emerging market" is a catchphrase generally used to identify middle income countries and those markets with an investment potential. See Chapter 5 for a detailed discussion and critique.

and the neoliberal wage compression should be added to en emphasis on proliferation of financial instruments and financial models for hedging risk. These all led to increasing embeddedness of relations "between capitals" and "capital and labour" in interest-paying financial transactions. Financialisation of accumulation in the late 20th century can be understood from such a perspective.

Financialisation is a multi-dimensional process and it develops in an uneven and combined manner. In the advanced capitalist economies of the late 20th century, it brought about the growing importance of financial markets and actors through proliferation of derivative transactions, new forms of fictitious capital based on the streams of household income, stock exchange operations and speculation. On the other hand, less developed countries some of which would be called "emerging markets" in the post-1980 wave of financial liberalisation have experienced a process of financial deepening followed by financialisation dynamics. Government debt instruments (GDI) occupying financial markets and the portfolios of banks in some major "emerging markets", played a significant role. Despite the dominance of this particular form of fictitious capital in these economies with relatively shallow financial markets, the combined nature of financialisation revealed itself in the pace of the growth of stock exchange operations and derivative transactions and new financial products.

The 2007-2009 crisis of financialisation (see Blackburn, 2008, 2011) resulted in a great bust in the world economy. According to International Monetary Fund's (IMF) *World Economic Outlook 2011*, the output in advanced capitalist economies[2] declined 3,7 % on average in 2009. However, the decline in world output was much less, around 0,7 % thanks to positive growth rates in many "emerging markets". The weak recovery in 2010 and 2011 led to desperation rather than hope. The staggering rates of growth in many advanced capitalist economies imply that there is a growing threat of

[2] This category includes United States, Euro area, United Kingdom, Canada, Japan, Korea, Australia, Taiwan Province of China, Sweden, Switzerland, Hong Kong SAR, Czech Republic, Norway, Singapore, Denmark, Israel, New Zealand and Iceland. See IMF, World Economic Outlook report and projections in September 2011, http://www.imf.org/external/pubs/ft/weo/2011/02/pdf/text.pdf, retrieved on November 2, 2011

unemployment. Capital flows to and credit expansion in “emerging economies”, on the other hand, opens the way for new credit bubbles.

The problem with the “financialised accumulation” (Saad-Filho, 2009) is that financialisation provides new opportunities for hedging risk and “negating” production at the same time. By negation, I mean the growing involvement of manufacturing firms in financial investment. Financialisation provides opportunities for making lucrative profits out of financial investment on the one hand and it boosts the instability in the economy and results in weak recovery after market crashes or credit crunches on the other. State intervention that aims to restore the markets and bail out financial sector has in-built limits. To put in general terms, state intervention into financial markets in particular and economy in general for assuming the losses of the financial sector increases the need for fiscal consolidation and structural reforms. The fiscal burden of intervention for supporting recovery is accompanied by calls for further reforms. These reforms aimed the flexibilisation of labour market, determined severe cuts in social policy expenditures as targets, and attempted to impose an economic straitjacket to governments. The problem with these reforms seems to reside in the conspicuous absence of regulation of the financial sector that appears as the generator of volatility and crises. Indeed, crises cannot be contained within the financial sector even if they are generated within the financial sphere. They are the reflections of the contradictory relations of production and they impact upon the very social relations they emanate from. To devise new modes of regulation is an attempt for temporary reconciliation of contradictions, the success of which is questionable by its nature. The conspicuous absence of regulation of financial sector can also be conceived as the weakness of alternative policy proposals. This study at hand does not provide a policy proposal as such but it aims to underline the contradictions emanating from the financialisation of the economy and the restructuring of the state within the context of Turkey.

1. 3. The Argument and the Outline of the Study

The *explanandum* of the dissertation is the relation of the policy of debt management and restructuring of the state to the financialisation of Turkish economy. The variables used for explaining the mentioned relation and the transformation in the Turkish case consist of the global financialisation dynamics, the commitment of policy makers for financial deepening and the provision of lucrative profits to business groups through financial investment amidst neoliberal hegemony.

This dissertation will mainly argue that the nation-state as the realm of decision-making, regulation and control as well as networks, strategies and struggle is being constantly restructured against the background of financialisation of the accumulation, i.e. the growing importance of fictitious capital transactions or “interest-paying financial transactions” (McNally, 2009) within the relations between capitals and capital and wage labour. The forms of state intervention not only have an impact upon the course of relations which underlay political institutions but also are reflections of the promotion of particular strategies and interests under the guise of neutrality and unity. The restructuring of the nation-states in line with the financialisation of the accumulation can be defined as the *financialisation of the state*.

Restructuring with the aim of financial deepening in “emerging markets”, reforms for the “depoliticisation” of public finance, attempts for assuming the losses of the financial sector in times of crisis and the provision of support for the revitalisation of credit markets in both “emerging markets” and advanced capitalist countries can all be seen as the aspects of this process. The dialectical relationship between the financialisation of the capital accumulation process and the *financialisation of the state* can be schematised as such:

Table 1.1. The Relationship between Financialisation of the Accumulation and the Financialisation of the State

Financialisation of the accumulation ⟺	**Financialisation of the state**
Growing importance of fictitious capital transactions, financial derivatives and risk management within capital accumulation; increasing involvement of NFCs in financial investment	Legal-political reforms in line with the debt-driven expansion of finance and/or financial deepening, strategies of depoliticisation and internationalisation in economic management, socialisation of the losses of the financial sector

This theoretical stance and critical approach to the literature of financialisation will be complemented by analysing Turkey. The contradictions arising from financialisation of the economy and the *financialisation of the state* in Turkey will be analysed in detail in order to make a critical elaboration of the relation between restructuring of the state and ups and downs within the financially liberalised Turkish economy.

The argument of the thesis can be formulated in a few paragraphs as such: Financialisation is experienced in different ways in the context of various national and regional economies. While for the advanced capitalist economies the debt-driven expansion of finance was based on the flow of household income into financial markets, the capitalisation of future state income through GDI exchanged in domestic and international markets played a similar role for some major "emerging markets". This does not mean that the latter did not experience a similar growth of private indebtedness in the late 1990s and the first decade of the 21st century.

Financialisation of the accumulation is dialectically related to the *financialisation of the state* in Turkey. The Turkish case is important since it provides a model in which the policy of debt management, financial crises and restructuring of the financial arm of the state contributed in their own ways to financialisation. Indeed in many "emerging markets" financial crises were followed by refurbished neoliberal programmes. It is, however, explicitly visible in Turkey that the policy shift in debt management, growing significance of financial sector in the face of mounting public debt rollover problems and the determination of policy makers to achieve financial deepening provided the mechanism for making huge profits out of financial investment for big business groups.

By focusing on Turkey, the dissertation will emphasise that the importance of GDI and the policy of debt management in particular and the forms of state intervention in general should be underlined for pointing out the variegated nature of financialisation. As it will be argued, in Turkey as in many other "emerging markets", the state played a critical role at the dawn of financial deepening and the course of financialisation. Funding the public expenditure and investment into GDI became the key mechanism of financialisation for business groups in Turkey, throughout the process in which the share of financial sector within the economy and involvement of NFCs in financial investment increased considerably. It will be emphasised in the study that the growing significance of the financial markets and operations in the "emerging markets" with relatively shallow financial markets should be explained among other things through a focus on the forms of state intervention and the issue of public debt. The study will explain the growing importance of financial markets in Turkey by discussing the public debt management and the state restructuring.

The dissertation will argue that, in Turkey the construction of Treasury as a nodal point in terms of the relations with international financial institutions (IFIs) was a critical step within the general restructuring of the state apparatus in the neoliberal era. The intermittent process through which the state relied more and more on borrowing from the financial markets (notably domestic banks) not only gave its flavour to the financial deepening and the volatility and crises in the post-1980 period but also provided a profitable field of financial investment for business groups in Turkey. In a nutshell, the high risk premium offered by GDI, proved detrimental for productive investment. The financial liberalisation not only increased the dependency of the economy to capital inflows but also paved the ground for growing importance of financial operations for the economy as a whole and for society in general. Within this context restructuring of the state in Turkey, i.e. *financialisation of the state*, had a dual meaning: restructuring of the state contributing to the financialisation and restructuring of the state as attempts to contain contradictions emanating from financialisation. In other words, the state and its restructuring proved to be the initiator of the financial deepening in Turkey, but the financialisation process as well proved to be the initiator of major reforms in the neoliberal period.

In order to support the thesis, this study reviews the literature on financialisation and the state theory. After summarising the transformations in international monetary system and the proliferation of financial transactions in the second half of the 20th century, Turkey will be portrayed as an "emerging market" in which the neoliberal orientation and restructuring of the state accounted for the financialisation of the economy. The dissertation uses academic studies, reports of IFIs, journalistic comments, declarations of policy makers and representatives of financial sector, data and statistics provided by institutions such as the Undersecretariat of Treasury (UT), the Central Bank of the Republic of Turkey (CB) and the Ministry of Development (formerly known as State Planning Organisation) and finally the policy documents, studies and reports prepared within the various branches of the state. Also, the opinion pieces covering the relations between the Treasury and banking sector and the headlines of the news regarding the public debt management and the restructuring of the financial arm of the state in newspapers *Milliyet*, *Hürriyet* and *Radikal* (various years) have been scanned.[3]

I have also conducted four semi-structured interviews in the last months of 2011, three of them with the top level bureaucrats from the UT and one with a former undersecretary, in order to understand the recent transformations within the institution and its position within the state apparatus. These interviews included questions (see Appendix A) on the role of the Treasury in the financial deepening in Turkey as well as about the evolution of the institution in roughly the last two decades, i.e. in the aftermath of financial liberalization. Despite the relatively small number of interviews, I

[3] All translations from articles, reports, opinion pieces and speeches in Turkish are mine.

believe they had a representative quality.[4] Since my main aim was to understand the perception of restructuring of the state within the benches of Treasury, the strategy and orientation of UT and *financialisation of the state* with particular emphasis on debt management, I have not attempted to enlarge the scope by contacting with experts and bureaucrats from other state institutions important for the economic management.

After this brief introduction, the second chapter provides a review of the various uses of the concept of financialisation. It will be suggested that for a decent account of the financialisation, global political economic transformations and the peculiarities of national or regional economies should be discussed in tandem. Because of focusing upon the stylised facts of advanced capitalist economies and not providing a detailed account of the relations between the state and the financial sector, the literature on financialisation remained biased against "emerging markets". In order to overcome this narrow look, the policy of debt management and the role of the state should be a part of the research agenda.

The third chapter will give an account of the financialised accumulation by discussing the classical contributions of Marx and Hilferding and the contemporary studies on risk management and the financial derivatives. It will also analyse the rationale of derivative transactions and the understanding of risk prevalent in financial markets. Financial systems are designed for meeting the demands of the productive sector. Financialisation process extends the logic of capitalisation through both new and traditional forms of fictitious capital and also the proliferation of derivatives exchange. Financialisation provides the opportunity for the mobilisation of savings and hedging the risk on the one hand and provides an alternative arena of accumulation apparently distinct, but internally related to the production, on the other. Financialisation therefore yields contradictory results for capital accumulation. It should be reminded that it increases the

[4] There are only seven main service units organized as directorates general, five units for auditing and consultancy and four auxiliary units within the UT as a whole. See the organization chart at http://www.hazine.gov.tr/irj/portal/anonymous

instability and uncertainty while simultaneously providing extra profit opportunities for business groups.

The fourth chapter will deal with the Marxist state debate and follow the footsteps of the contributors to the debate. After a review of critical terms such as “internationalisation of the state” and depoliticisation, it will be argued that the functions assumed by the capitalist state in the period of financialisation can be explained from a strategic-relational point of view. *Financialisation of the state*, it will be argued, means the reformulation of the state-finance nexus in line with the neoliberal principles. Changing form of state intervention in the era of financialisation aimed to remove the obstacles against financial investments. Provision of legal framework for such transactions and socialisation of the losses of financial sector were also aspects of the state intervention. The restructuring of the state can also be explained by focusing on processes such as placing public finance at one step away from political decision making and the internalisation of neoliberal creed within the financial arms of the state. The mentioned reformulation should not be conceived as the resolution of problems; although, the state attempts to contain the contradictions emanating from the financialised accumulation. Nevertheless, the restructuring of the state increased the ability of business groups to pursue particular strategies such as relying on financial investment and engaging in financial transactions to compensate the problems in productive sphere. It also increased the capacity of financial sector and actors in international financial markets in determining the course of economic developments.

The fifth chapter will provide the discussion of the background against which the financialisation of the “emerging markets” took place. After the collapse of the post-war international monetary order and the international debt crisis, the social and political restructuring in developing countries has met with capital inflows increasingly in the form of portfolio investments. Capital inflows to the countries, which would later be labelled as “emerging markets”, provided the sources for new investment projects on the one hand and boosted financial instability on the other. The dependence of “emerging markets” to international financial markets increased and financial deepening was conceived as a key aspect of integration of these economies into the world economy.

Turkey's changing mode of integration into the world economy will be discussed in the sixth chapter. Neoliberal orientation and financial liberalisation, it will be argued, did not lead to higher rates of GDP growth on average. It can be seen that the financial involvement of NFCs, the share of financial intermediation in GDP, the ratio of total financial assets to GDP, all increased dramatically in Turkey in the aftermath of financial liberalisation. The stylised facts of the Turkish economy prove that financialisation of the Turkish economy took a long way in the last two decades. It will be also pointed out that the state's policy of debt management and monetary policy impacted upon the strategies of business groups and their investment preferences.

The seventh chapter will detail the restructuring of the state with a review of the legal regulations, the functioning of GDI market, relations between the Treasury and the banking sector and a detailed discussion of the shift in the policy of debt management. It will be stated that economic policies of the state paved the ground for the financialisation of the economy, which has been accompanied by the continuous restructuring of the state. In this sense, the reformulation of state-finance nexus in that sense added up for the deepening of the financial sector, although this did not mean orientation of loanable funds to manufacturing investment but the dominance of GDI in the financial market. Concluding part will not only summarise the dissertation but also comment on outlooks and prospects for further study.

The thesis will underline the need for involving debates on restructuring of the state within the broader literature on financialisation. By way of highlighting the policy shift in debt management in Turkey and the restructuring of the state in general, it aims to grasp both financialisation of the economy and *financialisation of the state* in Turkey from a critical and political economic perspective.

CHAPTER II

FINANCIALISATION: CONCEPTUAL DISCUSSION IN QUEST OF A CRITICAL FRAMEWORK

2. 1. Introduction

Recent credit crunch and international financial crisis have been discussed by many as the crisis of financialisation.[5] 2007-2009 global financial crisis was labelled as such because of the birthplace of the crisis. The Anglo-Saxon countries were the hometown in which financialisation blossomed. The global financial crisis had direct impact upon the production of goods and services. World GDP has declined more than 0,7 % in 2009. The ratio of GDP decline was 3,7 % for advanced capitalist countries and it amounted to 4,3 % in Eurozone.[6] After a brief period of recovery in 2010, advanced capitalist economies are expected to perform poorly in 2011 and 2012. Even the projected dismal performance of world economy is related to the containment of Eurozone crisis, fiscal consolidation in the United States (US) and prospects in "emerging markets". As the recovery of economy and the revitalization of credit markets were based upon huge packages of fiscal stimulus and the crisis has made it harder for countries with high levels of debt to finance their expenditure, the financial crisis has turned into a sovereign debt crisis in the periphery of Europe. Debt instruments as claims on tax income of the states in the periphery of Europe are held by many European banks. The credit derivatives and exotic financial products refer to these GDI and financial investors continue betting on default of countries such as Greece and Spain. As of late-2011, the volatility in

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[5] The term is explicitly used to explain the origin and course of recent international financial crisis by critical researchers such as Blackburn, (2008), Panitch and Konings (2009) and Lapavitsas (2009a). As a concept, it seems to be reserved for critical scholars from Marxist, post-Keynesian and institutionalist benches (see van Treek, 2008).

[6] The figures are from IMF World Economic Outlook Database, September 2011 edition with the title *Slowing Growth, Rising Risks*. See http://www.imf.org/external/pubs/ft/weo/2011/02/pdf/text.pdf

the financial markets persists. Not only European periphery suffers from the international financial volatility. As the volatility provides a gloom over growth prospects, advanced capitalist world is expected to grow sluggishly in the years ahead. In August 2011, for the first time in her history, the US credit rating has been downgraded. General government debt burden of the US as the debt burden of many other advanced countries are of great concern for policy makers and economists. Political agenda is also being shaped under the pressures of financial volatility and soaring debt concerns. It seems that further cuts in public expenditure and the regulation of pension systems will dominate the political scene of many countries in the aftermath of the first global crisis of recent financialisation.

For those who counterpoise "financial capitalism" to alleged "industrial capitalism", the crisis, might turn out to provide an opportunity for questioning the financialisation of the last couple of decades, characterised by falling rates of growth, high volatility of financial markets and the perennial financial crises. Indeed the crisis has been traced by critical scholars back to the neoliberal counter-revolution of Reagan and Thatcher in the late 1970s and early 1980s. These politicians symbolised the deregulation of economy and loyalty to monetarist principles. The market-fundamentalism of the 1980s was a response to the end of the golden age of capitalism that was characterised mainly by the Keynesian macroeconomic policies. The neoliberal turn and the wave of financial liberalization led to growing integration of many capital markets. However, the seeds of the financial integration of the participants of international economic system were sown in the formation of post-war international economic order. A systemic perspective, therefore, should link the unprecedented financial expansion within the last quarter of the twentieth century to the developments within the period of "organized" or "regulated" capitalism.

As it is suggested within this chapter, financialisation is not only an economic phenomenon but also a process with social and political dimensions. It impacts upon everyday lives of individuals and social classes through the use of complex financial products such as financial derivatives. Streams of individual income, dividend payments of corporations, tax income of nation states are all subjected to the logic of capitalisation within the capitalist mode of production. Nevertheless financialisation occurred in particular periods of the history of capitalist mode of production and cannot be identified with capitalism as such. The integration of financial markets, the devise of mechanisms for transaction of valuable papers as claims on future income streams, hedging risk and increasing opportunities for transferring it to those who wished carrying are necessary conditions for financialisation.

These conditions and their impact upon social life point out that an analysis of financialisation should acknowledge different levels. Aside from the need of indicating different levels, a general framework should reserve room for diversity of mechanisms of financialisation and consequences. This attempt also requires locating the conceptual discussion within the historical context. In order to clarify the conceptual terrain and call attention to alternative perspectives this chapter starts with a review of the literature on financialisation. Several uses of the term and research agendas are categorised and touched upon in the second and third parts; while the neglect of the role of state and the financialisation in countries with relatively shallow financial markets is criticised. It is the main argument of this chapter that to provide an account of financialisation of a national economy, it is necessary to take into account global economic developments on the one hand and the role of nation state and political struggle in general on the other. As long as financialisation is conceived as the feature of advanced capitalist West and identified with the functioning of developed financial markets as if it was a depoliticised process, it would mean approaching the developments in other parts of the world in a blindfolded manner. The concluding part of the chapter reiterates the major points and links the argument to the following discussion of "financialisation thesis", capital circuit and the mobilisation of capital.

2. 2. Financialisation: Adventures of a Troubling Concept in Troubled Times

The debate on financialisation is both aspirational and pretentious, since the concept is being used to explain various phenomena from the increasing dominance of financial markets in the functioning of the domestic economies as well as the global economy to the increasing "dissociation" of capital from productive activities. The transformations in social sphere such as the organization of everyday life of individuals in the late 20th century and early 21st century societies according to financial motives are also referred to. What is striking about the term is its elusiveness because of applying it in various contexts while showing little effort, if not any, for a critical discussion with the aim of making it operational. Rather it is a preferred way, by social scientists, especially political economists, as well as researchers from other fields and journalists to deploy the concept as one, which is self-illuminating or does not need a discussion in itself. A conceptual discussion is, however necessary, rather than assuming the concept as self-explanatory, or at best providing abstract definitions that pertain to the research question and stylized facts at hand. This would serve for explaining the political and economic transformations by acknowledging the contradictions emanating from the processes of financialisation. Deployment of the concept, not only for analysing the stylised facts of a particular economy but also developing a critical outlook on global capitalism will yield more fruitful results.

The story of the coinage and later uses of the term shows that as many other concepts stripped of their original context and made a research question on their own, financialisation gained additional meanings while at the same time lost the kernel of the conceptual idea. The following subsections will provide a review of the literature of financialisation. A threefold distinction is made in accordance with different levels of analysis. While world systems approach investigates financialisation with reference to global dynamics of capital accumulation, *Régulation* theory focuses upon the viability of a finance-led growth regime conceived on a national economy basis. Also writers like Orhangazi (2008) and Stockhammer (2004) directed their attention towards the financialisation of national economies. The third current, namely "critical accountants"[7], investigated financialisation mainly with reference to micro-level strategies of firms. This distinction, however, does not imply a strict boundary as figures within one camp necessarily keep dialogue with other studies as seen in the engagement of *Régulation*-ists with firm-level strategies and attempts of "critical" accountants to relate microeconomic changes to the impact of macro level financial domination.

[7] These researchers from *Centre for Research on Socio-cultural Change* of Manchester University are critical in the sense that they place their analysis of the financial operations of NFCs beyond mere accounting tables and use the insights from literature of economics, sociology and management to provide a more comprehensive analysis of firm behaviour. Still, the main point of focus is characterised by notions such as "corporate governance" and firm strategy.

Nevertheless, the contributions from different fields of political economy do not form an integrated whole but rather present a picture of contributions from different academic enclaves. It can be argued that, though the concept of financialisation revealed a promising research agenda, the silence in issues such as the role of state and public debt management remain as a major problem. The neglect of the "emerging markets" within the literature should also be overcome.

2. 2. 1. The Original Context and the Journey of the Concept of Financialisation

I prefer to start with pointing out the original context since the coinage and then the later popularisation and following uses of the concept do not indicate a linear type of development as an offshoot of primal research agenda. As an *explanandum*, it was a term for characterization of the end of a "systemic cycle of accumulation" (Arrighi, 1994), or end of an era, which was characterized by financial expansion following the material expansion. Within this context it was immanently related to the general formula of capital and the expanded reproduction of the capitalist social relations of production. As an *explanan*, it became a variable used for explicating the changes in firm and household behaviour alongside the macro level discussion of neoliberal impact upon the growth and investment rates on a national economy basis. Whereas the first type of use necessitated historicizing the crisis tendencies of capitalism and the contradictions within the expanded reproduction, the second merely suggested the term as one of an axiomatic truth, by the help of which micro and macro level analysis would be enriched. This rupture does not appear, at first sight, as explicit as it is stated in this study. Nevertheless it played a critical role for those who wish to document the impact of transformation, which is taken for granted, rather than discussing the different dimensions of financialisation and its causes.

The concept was first coined by Kevin Phillips in 1993 (Foster, 2007) in his discussion of the decline of American economic power and its inability to provide a flow of prosperity into the lower and middle strata. In comparing American economy with the former economic powers, he noted the similarity that historically the decline of an economic power could be delineated by underlining "[e]xtensive preoccupation with finance and tolerance of debt" (cited in Arrighi, 1994: 314-315) within these societies. The dramatic increase of the US state indebtedness in the

1980s was documented by Phillips to delineate the mentioned tolerance and it was this context of social polarization within an economic power, the level of indebtedness and the financial expansion during the second era of the systemic cycle of accumulation that the concept was deployed by Arrighi in his *Long Twentieth Century* (1994).

By the late 1980s and 1990s, while the importance of finance was being increasingly acknowledged by radical political economists, also Paul Sweezy (1994) dealt with the repercussion of his and Paul Baran's well-known thesis of monopoly capital. Their argument pointing out the lack of effective demand in monopoly capitalism and the stagnation tendency was very much influenced by Josef Steindl's (1952) *Maturity and Stagnation in American Capitalism*. Paul Sweezy and Harry Magdoff (1987) pointed out that this stagnation would lead to the formation of a huge financial superstructure with inherent instability and disastrous effects for economy. As Foster (2010) points out, thanks to this research accumulated on capitalist economy, Sweezy labelled the underlying trends of the period beginning with the recession of 1974-75 as proliferation of monopolistic multinational corporations (MNCs) and the financialisation of capital accumulation.

While the concept was being moved from the footnotes to the titles in the late 1990s and early 2000s, Arrighi made a further contribution to the use of concept in his Brenner critique. With reference to Krippner's findings on U. S. corporate profits Arrighi maintains that "...higher-cost incumbent firms responded to falling returns by diverting a growing proportion of their incoming cash flows from investment in fixed capital and commodities to liquidity and accumulation through financial channels." (2003: 49). As a prominent feature of financial expansion epoch, this process of financialisation of capital characterized the long downturn. Arrighi repeated his arguments on the significance of the collapse of the post-war international monetary order and the role of public debt, in particular the transformation of the U. S. from the provider of liquidity for trade and exchange in world market to the biggest indebted country. In this study, however, it is not the financialisation *per se*, but financialisation of capital and financialisation of "the US economy", which means in Krippner's view, the corporations of the US.

A comprehensive attempt in the mid-2000s should be noted, to discuss the issue of financialisation, its causes and its impact upon the world economy as well as to document the crises and transformations financial expansion and liberalisation are affiliated with. The volume edited by Epstein (2005) evaluates the transformation of world economy and responses of nation-states and NFCs, by the deployment of the concept, despite its ambiguity. In that sense it is not surprising that Epstein (2005) started his introduction with a warning on, again with reference to Krippner, what I prefer to call, the polysemantic character of the concept. His own definition is widely used as a general and introductory remark: “financialisation means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies” (Epstein, 2005: 3). Attempts to narrow down the scope of the concept seem inefficient since they refer to more ambiguous terms such as globalization. For Stockhammer, for example, financialisation means “globalization of financial markets, shareholder value revolution and the rise of incomes from financial investment”[8] (Stockhammer, 2004: 720). It is possible to notice general references to the transformations in the functioning of the global economy and the disciplining mechanisms of capital, but it is not possible to have a clear meaning of the term on such an abstract level. The concept, through such formulations, bears the risk of becoming one of those used for vulgar periodisation of the post-war capitalism and hastily conjoined with neoliberalism and globalization (see among others, Dowd, 2000). Indeed, the concept has taken quite a long way in that respect (see Engelen, 2008) and is used more often than not as a signifier with no clear signified apart from the importance of gargantuan financial markets. It is for this reason Orhangazi claims that “Financialization has evolved into a concept similar to globalization: a widely used term without a clear agreed-upon definition.” (2008: 3).

[8] This definition concerning the incomes of NFCs from financial activities bears an emphasis different from Krippner (2005) who also focused upon the composition of corporate profits as a whole.

2. 3. Different Approaches to Financialisation

2. 3. 1. World Systems Theories

World Systems Theories (WST) analysed the transformations in the world economy through a focus on the geography of political power and the formation of hegemonic powers. As implied with reference to Arrighi above, the financial expansion, to a great extent, coincided with the weakening of the leadership of world hegemon, sowing the seeds of transition to a new configuration of power. The issue of financial expansion as a recurring phenomenon in world system was first taken into account by Braudel. Growth of financial deals in centres of accumulation could be read as a "sign of autumn" for Braudel (1992: 246) whereas for Arrighi the autumn in the sense of developments within capitalism as seen in the end of material expansion should be interpreted as the autumn of the hegemonic power configuration. Arrighi (1994, see also Arrighi and Silver, 1999) maintained that the financial expansion as a recurring phenomenon concurred with the interstate competition on the one hand and inter-enterprise competition on the other. The competition among states for mobile capital as a feature of modern era (Weber 1961: 249) becomes intensive as the slowdown in material expansion on a world systemic level is responded with more competition for capital accrued in financial markets.

Arrighi, by way of locating the flexibility of capitalism into a world-historical framework, focused upon systemic cycles and the concentration of capitalist power. In his discussion of Marx's general formula of capital (M...C...M' or M – C… P… C' – M' in its extended version), he raised the level of abstraction from expanded reproduction of capital as a social relation to capitalist world economy in general. Arrighi denoted that the material expansion qualified by investment of money into production of commodities (M...C), was followed by financial expansion in which the money capital is increasingly directed to financial rather than productive investment (C...M') (Arrighi, 1994: 5-9). A systemic cycle of accumulation, characterised at the same time by a hegemonic power (Genoese, Dutch, British and American in order), comprised two epochs and was replaced by a new one forming a repeated pattern. Overaccumulation of capital results in financial expansion which "are taken to be symptomatic of a situation in which the investment of money in the expansion of trade and production no longer serves the purpose of increasing the cash flow to the capitalist stratum as effectively as pure financial deals can" (Arrighi, 1994: 8).

The concept of financialisation, in Arrighi's study was located within a context in which the theoretical construction should be made *via* an analysis of, among other developments, the regulations concerning the inter-state competition and cooperation on the one hand and the role of public debt acting like an "enchanter's wand" (Marx cited in Arrighi, 1994: 13) on the other. In other words, analysis of the financial expansion epoch of the systemic cycle of accumulation necessitated a focus on the institutional forms of state intervention and sovereign monetary policy as well as the form of integration into world economy.

Arrighi (2004) himself notes the affinity between his analysis of the systemic cycles of accumulation and Harvey's discussion of spatio-temporal fix. As he underlines, the term 'fix' in Harvey's discussion has a double meaning. On the one hand, it refers to the fixed portion of capital while on the other it is the response based on "temporal deferral and geographical expansion", given to the crisis (Harvey cited in Arrighi, 2004: 528). The overaccumulation crisis is "fixed" temporally and it also provides the ground for a hegemonic shift on a systemic level. For Arrighi, in a similar vein to scholars working with a world systemic perspective on the capitalist accumulation and crises, the financial expansion phase of a cycle is the indicator of the overaccumulation crisis. In other words, "financialisation has always been the predominant response to the overaccumulation problem of the established organizing centres of the system of accumulation" (Arrighi, 2004: 536). The centre seems in an advantageous position for attracting the mobile capital in the first part of this last phase. Over time, however, the regions that provide safe havens for capital accumulation, i.e. a new spatio-temporal fix, replace the hegemon of the preceding systemic cycle and the material expansion phase of the new cycle begins (see also Arrighi and Silver, 1999: 34).

In empirical terms, the financialisation from the perspective of WST can best be delineated by data of profit rates in the centres of accumulation (for a recent example see Li et al., 2007), which would in turn underpin the law of the tendency of the rates of profit to fall in a historic perspective. The analysis of these cycles or long waves occupies an important place in WST. In our case, though Arrighi prefers the term financial expansion phase of a systemic cycle to elaborate financialisation as such, Wallerstein (2000) prefers using the terminology of Kondratieff cycles. Despite the concurrence on the side of world systems researchers in deploying the "cycle logic" and emphasizing the contribution of classical Marxist understanding of the tendency of the rates of profit to fall, the issue of defining the domination of finance whether as a regime of accumulation (or social structure of accumulation, see Tabb, 2007) or a malaise of capitalist system recurring in the "B phase" of a cycle (e. g. transition to a new phase in Wallerstein, 2000) remains unsolved. It remains rather unclear whether the financial expansion phase, in rather a determinist way, should be defined as a transition to a new spatio-temporal fix (Arrighi, 2004: 536) or an open-ended process with its concomitant institutional regulations, in which the hegemon's deferral of the crisis gives way to a rather short but nevertheless effective revitalisation for hegemonic power (Arrighi, 2003: 67-71).

An important aspect of the approach to financialisation from a world systemic point of view can be seen as the emphasis made upon competition. This emphasis has two dimensions. First one is the competition among nation states for attracting the mobile capital throughout this process of financial expansion. Nation-states subject to the disciplinary power of finance capital play a vital role in shifting the burden of the systemic crisis to their citizens. This shift, while critical for requirements of mobile capital, provides at the same time opportunity for anti-systemic movements questioning the legitimacy of policies. The second one is the competition between firms. In contrast to the arguments for a monopoly stage of capitalism and distinctive price-setting ability of the monopolies (see Foster, 2007) WST place emphasis upon the inter-enterprise competition. The firms diverted their resources to financial activity not because of their monopoly character but rather because of heightened competition. Inter-capitalist competition did not diminish, but on the contrary was critical for financialisation. On the other hand major emphasis on the inter-capitalist competition would fall short of providing an integral account of responses given by firms within manufacturing industry. For Arrighi (2003), the response given to the crisis cannot be delineated solely on the basis of emphasizing further investment, deteriorating the problems of overaccumulation. “Too little exit” meant persistent problems of profitability and NFCs and with particular reference to Brenner’s focus, the manufacturing industry in the U.S. increasingly invested to financial assets in the 1970s and 1980s.

The most critical advance performed by World System theorists was arguably their insistence on the global character of capitalist accumulation despite the plurality of nation states (Martin, 2000: 240). Although this emphasis was not unique to World System theorists, it helped the scholars within this camp portray global economy in its complexity and point out the critical role performed by networks in relation to the orientation of hegemonic state. As it is well known, from its inception onwards a theory of hegemonic cycles dominated the WST. Accordingly the hegemonic state is capable of taking the lead position in global economy through competitive advantage in productive sector and military edge supporting this productive capacity in the sense of dominating trade routes and providing the material supplies. Nevertheless such particular conception of the hegemonic cycle leads to a notable predisposition for interpreting the growing importance of financial transactions as signs of declining US hegemony.

For WST, *Pax Americana* was about to end in the late twentieth century. In particular, in his search for the new hegemon Arrighi (1994) first pointed out Japan as the power in Pacific capitalism and then turned his face towards China in his last study. This can be related to the “restricted conception of hegemony” (Gowan, 2004) prevailing in WST. This notion of hegemony is anchored in production systems and understates the importance of differences between the preceding hegemonies and the US hegemony. Gowan (2004) claims that it is because of not taking into account the peculiarities of the US hegemony, WST falls short of pointing out the shift of the US towards capital intensive industries of information and telecommunication. The US was both able to create international regimes with a multilateral face and subordinate the institutions and networks of post-war world to its own decision making mechanism. The international monetary order became pure dollar standard after the unilateral action of the US to repeal the major article of Bretton Woods (BW) agreement, i.e. the article which makes the US redeem dollar in exchange of gold at a fixed rate. The manipulation of international monetary relations by the US and the pure dollar standard made it possible for the US to continue giving balance of payments deficits and undermine the trade advantage of its major rivals. For Gowan (2004) the peculiarities of the US hegemony necessitate a structural modification of the theory.

In my opinion, Arrighi attempted to overcome this question of peculiarity of the US hegemony by pointing out the positive impact of financialisation upon the hegemonic state. Arrighi (2009) explicitly pointed out that financialisation also involves, though for a brief period of time, the enhanced power of hegemonic state. Financialisation characterises both the raise of the power of hegemon and the accumulation of contradictions that would undermine the material capability of the hegemon before the terminal crisis. This apparent contradiction in terms can only be understood by noting that financialisation is being used by the US for retaining its position. The control and leadership of the US, according to Gowan (2004: 482), provides the necessary means for strengthening the state-military political capacity.

In her criticism against Hardt and Negri's conception of *Empire*, Wood (2005), who has also severely criticised WST because of its acquaintance with what she sees as "commercialisation model"[9] (Wood, 2002: 18-19), points out the need of military and political capacity, or "extra-economic powers of regulation and coercion" in order to sustain the expanded reproduction of capitalist accumulation on a world scale.[10] In her argumentation, the separation of the economic and political in capitalism should not be understood as the absence of regulatory authority. Nation states perform critical functions for capitalist accumulation. The empire of capital is being retained not only by singular nation states but also by the unprecedented political and military power of the US and the interstate system. WST deny the

[9] Wood uses this term in order to refer to those theories imposing an evolutionary view of history culminating in capitalist or commercial society. According to her "Far from recognizing that the market became capitalist when it became compulsory, these accounts suggest that capitalism emerged when the market was liberated from age-old constraints and when, for one reason or another, opportunities for trade expanded. In these accounts capitalism represents... an expansion of markets and growing commercialization of economic life" (Wood, 2002:12).

[10] WST are not far away from pointing out the need of state or "extra-economic coercion". In the words of Braudel (1977: 64) "the modern state, which did not create capitalism but only inherited it, sometimes acts in its favor and at other times acts against it; it sometimes allows capitalism to expand and at other times destroys its mainspring. Capitalism only triumphs when it becomes identified with the state, when it is the state."

possibility of a world empire because of the functionality of interstate system. In addition, by resorting to history, it can be shown that the costs of maintaining world order and the rivalry of competitors may undermine the hegemonic position of the respective core state gradually (Chase-Dunn, 1998: 173-179). Despite the refusal of an automatic cyclicality, foreseeing hegemonic decline in the face of growing economic and financial crises contain the risk of downplaying unprecedented political and military power of the US emphasised by Wood (2005). This notion of decline also seems to make WST approach financialisation as a phenomenon recurring in a similar vein in different historical periods as the final stage of hegemony.

For WST, the position of a state within the world system determines the capacity to determine the course of socio-economic events.[11] This is why; WST remain unguarded against the criticisms labelling the theory as structuralist and functionalist (Özdemir, 2010: 210-211). The location of a state determines its capacity to accumulate surplus value and *vice versa*. The hegemon and core states are also inclined to perform the functions necessary for the reproduction of the world system. This emphasis on the world system combined with the theory of hegemonic cycles downplaying the differences in historical configurations of hegemony appears as the major weakness in theory, which had its reflections in the way financialisation is conceptualised.

2. 3. 2. French *Régulation* Theory

Régulation theory, from its inception onwards, was preoccupied with the crisis of "regime of accumulation" in the alleged "Fordist" era, while at the same time pushed for delineating possible regimes that would take its place. "Fordist" regime underpinned the growth in post-war period but its crisis would not bring a new singular regime after a period of transition in which various alternatives competed. Boyer (2005a), for example, insisted on the existence of many models of capitalism

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[11] For Wallerstein core states are relatively stronger states. In a similar vein, Chase-Dunn (1998) claims that core states are stronger internally and externally. This is in line with the perception of WST that in the modern world system the "strength" of states are reciprocally related to the capitalist commodity production and the competitiveness of their economies.

and each alternative regime would have a chance to prove compatible only within the framework of institutional legacy of these particular types.

By the term growth regime, the virtuous coupling of the regime of accumulation and mode of regulation is mentioned. For a growth regime to prove viable it has to form a virtuous cycle in which the growth is promoted and the expectations are fulfilled not only on the side of the employers. Mode of regulation implies a particular configuration of the five key structural forms to promote growth for a considerable period of time. The heuristic value of the critical concept of mode of regulation resides in explaining the mechanisms of this configuration of wage-labour nexus, forms of competition, state intervention, monetary policy and international regime in order to couple the regime of accumulation on regional or nation-state level. Many growth regimes came to the agenda of *Régulation* theorists in the post-Fordist era, however they did not materialize. Boyer (2000) counts as much as seven different growth regimes among which finance-led growth takes its place.

The conception of "finance-led growth" appears as a departure from the usual macroeconomic analysis of *Régulation* theory, at least for some critiques (see Grahl and Teague, 2000: 170). The difficulty of the concept of finance-led growth rests on the changing configuration of the structural forms. To perceive a departure would be, however, overstating the responses given by *Régulation* theorists since the search for a viable or steady growth regime in Aglietta (2000) and Boyer (2000) reveals a refreshing character for *Régulation* theory. Indeed, *Régulation*-ists employ the same "institutional bias" under changing circumstances (cf. Grahl and Teague, 2000: 170-172). Put differently, scholars like Boyer and Aglietta do not reveal a u-turn in their search for a viable finance-led growth regime but look for the institutional conditions of a possible growth regime under the domination of financial markets, power of financialised managerial elite and the financialisation of household income, while at the same time exploit their long-dated "referential pluralism" (Mavroudeas, 1999).

The critical question in that respect revolves around the possibility of a finance-led growth regime and the feedbacks given by the market-based finance and domination of financial markets. It remains important for *Régulation* theory to investigate the forms of competition in the new era and point out the role of monetary policy and finance in the organization of the behaviour of not only firms but also households. From such a perspective, an increase in the consumption levels despite wage stagnation can be explained by the wealth effect[12], created in financial markets (Petit, 1999: 205). This explanation is accompanied by emphasis on economic instability and the impact of stock exchange and the shareholder value upon firms' investment decisions in a financialised environment (Aglietta and Reberiaux, 2005).

Aglietta (2000, see also Aglietta and Breton, 2001) in his critical works emphasizes the change in corporate governance and finance by pointing out the role of banks in market-based financial systems and in an era of growing financial liberalization. The financial market is based on "logic of homogenization" and the performances of firms are evaluated according to the share prices rather than their specific criteria according to the industry and viability of business project. In the financial market, majority shareholders expect a higher return. Firms may increase their debt in order to meet the expectations. As long as the cost of capital remains lower than the economic return of capital, debt increase will stimulate the return on equity. Firms implement strategies of labour cost reduction and increasing their savings to increase the economic return of capital invested. The problem which avoids this formulation to form an element of virtuous cycle is that higher leverage increases the risk of failure (Aglietta, 2000: 147-153). The steadiness of a possible growth regime within this context implies a debt ratio between the minimum level demanded by shareholders and the maximum level imposed by banks (Aglietta and Breton, 2001). The continuation of the leveraged financial structure of the firms on the one hand and the precarious employment does not give a chance for a steady growth regime in which the productivity increases are matched by increasing aggregate demand. The leveraged structure of the firms increases fragility whereas the costs of the crises are passed on to employees. To form a framework in which the excesses of stock market are avoided seems to depend on a long-run outlook on the savings coming to prominence (Aglietta, 2008a). This would also mean breaking

[12] Wealth effect can be explained as the increase in the market value of the shares held by firms, bank and individuals. This may result in credit expansion and lead the way for sustaining the consumer demand or end up in consumption boom.

the power of corporate managerial elite and introducing a new conception of financial intermediation.

Such a critique of the shareholder value conception also takes its place in Boyer's analysis (2005b). Shareholder value conception legitimized the supremacy of shareholder by pointing out the disciplinary power of financial markets. The subordination of investment decisions, however, to the expectation on asset-price appreciation shortened the firms' investment horizon. The specialization of the management did not necessarily lead to the expected wealth effect on the side of average shareholder. The CEOs of corporations and the high-level financiers increased their income in substantial terms. Shareholders gained considerably less than the financialised elite (Boyer, 2005b: 28, cf. Savage and Williams, 2008). Boyer directs the attention to elite power and the growing inequality even between those sections who could be considered relatively wealthy to engage in stock price options and those managers whose decisions were expected to benefit them.

In addition to the mentioned disparities, the fragile nature of the process of fulfilment of the financial market expectations throws doubts on the viability of a finance-led growth regime. The process of financial liberalization and the dominance of shareholder value conception may have led to important changes in the economies. But to assume the viability of the emergent system would be of counting one's chickens before the eggs are hatched. Besides, the demolition of various national configurations cannot be expected, since different modes of regulation persist and what the unfettered financial markets would bring about depends on at the same time the wage-earning social relations (Boyer, 2000: 127). Hence, financialisation can produce a virtuous growth cycle only if the compatibility between profitability of the firms and the equity effects, i.e. the enhancement of the value of the firm's shares, are achieved.

The character of the next regulatory regime continues to preoccupy *Régulation*-ist agenda. During and after the 2007-2009 crisis this follow-up to the previous questions regarding the coupling of mode of regulation and regime of accumulation in the "post-Fordist" era characterised the studies of critical figures such as Robert Boyer (2009). Accordingly how to deal with the built-in instability of finance and the provision of a regulatory framework has been the focus of *Régulation*-ist study. This has been the case, not in the sense of questioning the provision of a legal-political framework, but the reproduction of the conditions for accumulation through various mechanisms from monetary policy to the organization of labour relations.

This shift in the terminology to "finance-led growth" and financialised economy can be described by referring to the institutional forms emphasized by *Régulation*-ists. The decline of the wage-labour nexus and the former compromise between labour and capital were accompanied by the rise of finance as the regulatory mechanism in the organization of economy and the accumulation process. If understood in strict terms the *Régulation*-ist agenda focuses on national economies or regions. Despite this apparent difference from WST, the tension in the works of French *Régulation* researchers as seen in defining a new regime of accumulation in the so-called post-Fordist era (see Boyer, 1992) resembles the concern for delineating a new period of hegemonic decline and reflation in WST. However, this is realised through the use of different conceptual toolboxes. The issue of the viability of the "growth regime", debated by *Régulation* theorists can be grasped under this light.

As mentioned by *Régulation* theorists themselves the relation between financial instability and formation of a growth regime needs further elaboration (Boyer, 2000; Aglietta, 2008b). This need and explicit focus on national and/or regional level should not be seen as obstacles against the attempt to explain staggering rates of growth in the advanced capitalist countries and higher rates of growth and future prospects for "emerging market" economies. For example, Aglietta (2008b) deals with the possibility of a world growth regime in which the existing hierarchy is confronted. The emphasis of Aglietta (2008b), in his critique against Brenner's (2006) *Economics of Global Turbulence*, points out the rising powers such as China and India, in order to emphasize the limitations of the so-called Anglo-American model. From his point of view, the effective post-war mode of regulation had come to an end in the late 1960s and 1970s. The radical change in monetary policy and the wave of financial liberalization had put the countries onto a path in which the financial activity and market finance gained greater importance. Contrary to a perspective that would focus on the lower rate of returns in the US, Aglietta (2008b: 69-70) emphasizes the impact of shareholder value revolution and the effectiveness of business strategies in improving total factor productivity. "Emerging market" economies could escape from the straitjacket imposed upon them only after the Asian crisis of 1997-1998. With the help of diversification of trade and their export-orientation, they achieved higher rates of growth and could accumulate huge funds that would place many "emerging market" countries into the position of creditor. Resource transfer to advanced capitalist countries and the credit expansion paved the ground for a boom in asset prices and the recent financial crash.

The story told by Aglietta implies the dominance of "finance-led" accumulation in advanced capitalist countries and productivity orientation in "emerging markets" both as parts of the same picture. It begs the question of a new world growth regime with reference to the viability of a Braudelian perspective in which the asymmetric power relations, hierarchical interdependencies and the institutional capacities are presented as parts of the same world system. This not only reminds the WST but also reveals the "referential pluralism" (Mavroudeas, 1999) of *Régulation* theory, i.e. *Régulation*-ists do not hesitate articulating different approaches to state-market relations as long as they seem to explain the dynamics of capital accumulation and the evolution of institutional forms that compose the mode of regulation.

In brief terms, *Régulation*-ists attempt to deal with the question of explaining the unprecedented complexity of global economy by not resorting to the omnipotence of one model of capitalism.[13] They rather search for answers that point out the

[13] It is worth quoting Aglietta (1998: 79) despite the length in order to show the notion of path-dependency in *Régulation* theory: "The question of the future of the advanced wage societies is as follows: the factors we have analyzed that plunged the Fordist system into crisis were sufficiently powerful to lay the foundations of a new accumulation system. This system has borrowed from Anglo-Saxon capitalism the emphasis on competition, the control of companies by institutional shareholders and the place of profit and market value as the key criteria of success. But this type of capitalism is no less dependent on wage societies in their entirety, even though companies and financial institutions are less attached to any particular nation. But, in wage societies, the legitimacy of capitalism lies in the social progress that its dynamism sustains. The crisis of Fordism halted and even reversed social progress in the countries of continental Europe where it had flourished most abundantly. But market capitalism, even in conjunction with economic policies designed to maintain a high level of employment, cannot justify its existence in the absence of adequate regulation of social inequalities. Is it possible that the contradictions inherent in European societies will be resolved, that the enormous changes required to enable Europe to benefit from the new growth régime will be made and that a mode of regulation will emerge which is able to reconcile market capitalism with a renewed principle of solidarity?" Accordingly, the structuring of a particular wage society not only determines the particular contradictions in that society but also raises the question of

existence of many possibilities and discuss the evolution of different trajectories. Financialisation of the economy, as one of these trajectories, seems to fall far away from meeting the demands for regulation and minimization of inequalities within the capitalist societies in order to support social progress.

2. 3. 3. Analysis of Scholars from *Centre for Research on Socio-cultural Change*

The researchers from *Centre for Research on Socio-cultural Change* (CRESC) are also named as "Critical Accountants" or "British Social Accountants" due to the home country of CRESC (Manchester University). They analyse the business strategies of corporations and focus mainly on financial innovations. Financialisation is understood with reference to a critical evaluation of the shareholder value revolution and its negative impact upon the business. Despite the conjuncture in which firms arguably performed better and raised their shareholder value, this did not mean the settlement of major problems in capital markets in advanced capitalist societies. The dominance of shareholder value and the impact of the growing importance of financial investment on firm behaviour form the main elements in the research agenda of CRESC researchers. The strategies of multi-national corporations are of concern for CRESC researchers, but not "systemic cycles of accumulation" or the hegemonic power configurations as in the case of WST. Their critical dialogue with the *Régulation* school mainly derives from the negative answer given to the question of the viability of "finance-led growth regime" (see Froud et al., 2002).

The concept of shareholder value became a hallmark of the studies on corporate management and strategy thanks to the principal-agent theories of the 1970s and 1980s that popularised the notion of financial market discipline as an effective mechanism for improving the efficiency of both firms at issue and the economy as a whole. The corporate strategy, from this point of view, should be reformulated in such a way that the principals defined as shareholders should receive enough returns and the top managers of the corporations should serve the interests of them. The hostile takeover movement in the US in the 1980s and the deregulation of the

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how the new growth regime can be articulated to already existing set of configurations. It is clear that this should not be grasped basically as the spread of Anglo-American model of capitalism as such.

financial market formed the background against which various value conceptions came to be used to define the return of the capital employed and the expected future value of the firm.

The rising inequality and the relative weakness of the US firms in international competition, especially in the fields which require constant flow of funds for education and innovation prove that the performance of economy as a whole is negatively affected by the dominant conception of shareholder value.[14] Williams (2000) mentions that though a broad term, "the shareholder value" directs the attention towards the changes in the corporate strategies and the role played by capital markets. Financialisation in such a context signals the change in the hierarchy of objectives of the firms and modification of the forms of competition. Studies of "social" or "critical" accounting highlight the changes in the forms of competition through analyses of corporate accounting and critical review of the conceptions such as "market value added"[15] and "shareholder value added"[16].

Such a perspective based itself on a critique of the literature of corporate governance that was dominated by market fundamentalist perspectives. These analyses stuck to the criteria of the rate of return on corporate stock and perceived the hostile takeover movement of the 1980s as a mechanism of corporate control. In their analysis of the ideology of shareholder value maximization, Lazonick and O'Sullivan (2000) gave the historical background on which these theories furnished and mentioned that there occurred a shift in the ideology of corporate governance, from "retain and reinvest" to "downsize and distribute". They maintain that the legal changes and the flow of savings into the stock market through the rising institutional investors had certain effects in the corporate performance. The giant corporations of the US

[14] A typical example can be found in the words of Jensen: "The market for capital control is creating large benefits for shareholders and the economy as a whole. The corporate control market generates these gains by loosening control over vast amounts of resources and enabling them to move more quickly to their highest-valued use. This is a healthy market in operation, on both the takeover wide and the divestiture side" (Jensen cited in Froud et al. 2000: 87)

[15] "Market value added" shows the difference between the capital invested and the market value of a company. For investors, the higher the market value, the higher the return on capital invested.

[16] "Shareholder value added" is found by subtracting the cost of capital from net operating profit after tax. It indicates the worth of a company to its shareholders.

economy aim to maximize the shareholder value to meet the criteria imposed by financial markets but this shift did not produce the results expected by its proponents. Lazonick and O'Sullivan's analysis of changing corporate governance remains narrow in the eyes of "critical" accountants who emphasize the macroeconomic instability created by promotion of shareholder value in addition to the role of households within this financial system.

In their study on financialisation, Froud et al. (2000) perceives financialisation as a new form of competition, the framework of which is formed within the atmospheric pressure of capital markets for asset price appreciation. In their critique of conceiving financialisation in epochal terms, they claim that "financialisation does connote important real changes, but is not immanent, economy wide principle and (in its present Anglo-American form) is not a coherent, realizable project for management" (Froud et al. 2000: 104). The spread of financialisation may result in important macroeconomic changes but will not lead to a kind of convergence of the corporate and economic performances. It is mainly because of the existence of various investors taking part with their own criteria and decisions in the financial markets as well as the contradiction between what the reform of corporate management would bring and the capital markets demand (Froud et al. 2000: 106). These insights form a linchpin in their critique of *Régulation* theorists particularly Boyer who leaves the door open for the realization of a wealth-based growth regime (see also Froud et al. 2002: 133). Despite the critique directed towards Boyer's closed model, their emphasis on the contradictions of financialisation is in need of more support (cf. Langley, 2007) as their discussion of non-viability is limited to pointing out the corporate management's incapacity to satisfy the expectations of the capital markets in an environment of intense competition.

In 2002, to avoid the conceptual confusion due to the overuse of shareholder value and the incompetence of the term financialisation in documenting the management decisions, they introduced the concept of "coupon-pool capitalism" as a "new generic type where the pool of new and issued coupons becomes a regulator of firm and household behaviour and a regulator of macroeconomic trajectory" (Froud et al. 2002: 126). While trying to stay away from hasty macroeconomic abstractions, they point out that the financial logic determines the firm and household behaviour but, as they put, "in the last instance that never comes. A variety of institutions and non-financial logics retain some power of resistance in a coupon pool system and, especially where the processes of financialisation are only beginning, the scope for assimilation and adaptation is considerable" (Froud et al. 2002: 134).

The change in terminology, by looking at their later contribution implies that the concept of financialisation is reserved for macroeconomic transformation whereas the coupon pool capitalism is the type of framework, to which financialisation gives way (Froud et al. 2006: 69) and in which the management and household behaviour is determined first and foremost by the financial system of coupons. Post-Keynesian critiques stating that "critical" accounting studies lack a macroeconomic perspective despite their stress upon households and institutional fabric of the economy, gain strength at this point (van Treek, 2008: 10) since the discussion of CRESC researchers on financialisation mainly refers to firm-level strategies and decisions. In order to answer such kind of criticism, the recent studies of CRESC researchers include perspectives on macro-frame in which financialisation blossomed (see Engelen et al., 2010).

Researchers from CRESC differ from other schools of political economy in a number of terms. They differ, for example, from Varieties of Capitalism understanding in that they label the post-war capitalism as a productionist type of capitalism without any reference to the organization of economy as such. The difference between "liberal market economies" and "coordinated market economies" lose significance, from such a point of view, since the shift to a coupon-pool type in the aftermath of the collapse of BW is much more important. Montgomerie (2006: 306) states that there is always a coupon pool in the productionist type as well, but it is not that significant in regulating firm and household behaviour. Management and accounting practices designed for raising shareholder value in this new coupon-pool capitalism is emphasized by CRESC researchers on various occasions. This should not mean that there are significant differences between national configurations. However, the coupon-pool capitalism implies the interconnectedness of corporate activity on an international level. According to Johal and Leaver (2007: 362) "the nation still provides the stage where political and corporate elites acquire resources and formulate distinct strategies at firm and social levels, but the resources to implement such strategies and the flows of outcomes are now routed internationally with implications for what has to be negotiated domestically."

2. 4. Who and What are being Financialised?

Alongside the emphasis of various approaches to financialisation on macroeconomic or firm level changes, the term is also used for describing the changes on a broader scale. Gloukoviezoff (2006) prefers to employ the term in the context of financial exclusion and claims that access to financial services is important in people's everyday lives. Deprivation from financial services takes away the possibility of leading a normal life because of subjection to finance. He writes explicitly that "financialisation of social relations corresponds to the fact that the various connections that make up the social bond (self-esteem, links to family and friends, links to society as a whole (employment, consumption)) are increasingly expressed and constrained by the use of financial services." (2006: 222). The welfare state and the BW period, from such a point of view is taken as a step toward such expression of relations in monetary forms and their organization according to the credit mechanisms. The crucial side of the discussion of Gloukoviezoff is that the question what is being financialised is answered by referring not to the transformation of national economies or firm governance in the post-1970 era, but to a broad transformation of social relations in post-war capitalism. He does not question the domination of finance as such but attempts to analyse the difficulties in access to and use of financial services with a concern for democratization of finance.

Seemingly, the democratization of finance which Gloukoviezoff is after had a critical role in the 2007-2009 crisis of financialisation, as discussed by Lapavitsas (2009a). Adjustable Rate Mortgages widened the reach of house credits, while the securitisation of debt, by the help of financial innovations, made financial institutions hold debt particles as assets in their balance sheets. This should be analysed by taking into account the financialisation of personal income, i.e. "involvement of workers with the mechanisms of finance in order to meet elementary needs, such as housing, education, health, and provision for old age." (Lapavitsas, 2009a: 129, cf. Bryan et al., 2009). Corporations preferred to rely on financial markets rather than stick with the traditional bank loans since the 1970s. It pushed banks to focus on transactions concerning the financial markets on the one hand and personal income of workers on the other. Lapavitsas (2009a: 143) uses the term "'financialised' individual" for defining the shift, a term which denotes the flow of a part of the individual income into financial transactions as well as subjection to finance. He suggests that we are witnessing the rise of the expropriation of the workers' income in the sphere of circulation. It means the extraction of, not the surplus value produced by workers in the sphere of production in the classical sense, but part of their income.

Not only Marxist critique, but also Foucaultian perspectives provide a route for revealing the consent-based nature of "democratization of finance". Financialisation is revealed as a contradictory process of investor identity formation from such a point of view. The process cannot be taken as given, and the strategy against subjection to financial discipline cannot be formulated by pointing out the stylised facts or calling for a radicalised subject according to Langley (2007). The subject position of investor is not occupied easily by working class members who are workers and consumers in the first instance. To put in other terms, financialisation is not a given phenomenon but constructed in and through the processes of consent formation and identification of people as the investors. The discourse itself is at odds with the everyday reality at the same time and the contradictions of the neoliberal reform programs undermine the strength of such imperatives, defined as power technology in Foucaultian language. In general terms, those who call for repoliticisation of financialisation emphasise the risk mechanisms associated with financial activities (see de Goede, 2004) and pay attention to the discourse on finance. This discourse, also endorsed by critical studies to some extent by depicting its penetrative force as incontestable and not questioning the logic of risk calculation, describes the processes of transformation in the everyday lives of people as above and beyond politics. This perspective can be considered as a powerful critique of the burgeoning political economy literature of financialisation. In Langley's words:

> [W]hile disagreeing with neoliberal representation of the moral virtues and social consequences of financialization, existing critical accounts tend to hold in common with neoliberalism the assumption that financialization is a dynamic, powerful, mobilizing, penetrating force that is everywhere, driving societal and historical change. Individual investors are therefore portrayed as largely passive dupes who act on behest of new financial imperatives and/or the financial fraction of capital. The result is that the partial, fragmented, discontinuous features of the financialization of capitalism are, at best, overlooked and, at worst, regarded as a temporary blip that will be ironed out as the logic and power of finance is furthered (Langley, 2007: 86)

In terms of the approach to power relations within the context of financialisation Savage and Williams (2008) reveal a stark contrast with studies of governmentality as they focus upon the power of an organized minority, namely the CEOs and "financialised elite". Not the society or the individuals, but elites are being financialised in Anglo-American capitalism, from their point of view, since their power symbolised by money increased preponderantly in the new finance-led environment. The genuine character of their argument relies on their critique to the conventional American discussion of elitism-pluralism to which the sociologists were subjected through the second half of 20th century. They maintain that the analysis of the mechanisms through which the economic power is transmitted should be taken into consideration so that the conversion of the elite power within one field to the others as well as its impact on the protracted dominance of financial values in society can be understood.

2. 5. Different Conceptions, Similar Problems

Despite the significant differences in their approaches to the issue of financialisation, between the researchers and schools of political economy summarised above similarities should also be noted. Engelen (2008: 117) maintains that while financialisation is discussed with reference to the functionality of the organization of capital accumulation on the basis of financial motives in *Régulation* School and WST, CRESC researchers are keen on emphasizing the power of capital market intermediaries and financial elites in this shift to a new type. They also focus on the techniques and innovations which help financialisation spread within the social formation. Innovation is portrayed as a set of chains giving rise to further fragility in a financially liberalized environment (frame) and reproducing contradictions under new forms (bricolage) within the given conjuncture (Engelen et al., 2010). The contribution of "financialisation" from such a perspective is that, studies of financialisation can point out what went wrong as these are relatively immune from positive bias towards financial innovation and functioning of financial markets.

Montgomerie (2006: 307) argues that *Régulation*-ists portray the shift to finance-led growth as a process linked to Anglo-American model of capitalism and the domination of such type of regulatory framework over others. Montgomerie's portrayal of *Régulation* School's focus on financialisation in order to show the similarities and differences between scholars such as Aglietta and Boyer with those "social accountants" arguing of a generic shift in capitalism is bound to remain partial. I would suggest that the shift in *Régulation* theory cannot be understood as a smooth one. The matter of debate, according to some critiques, is not only the mechanism for the prevalence of one model of capitalism, but rather the challenge provided by financialisation to the *Régulation* perspective as a whole (see Grahl and Teague, 2000).

The bulk of studies from CRESC can be perceived as an attempt to highlight the socio-cultural and economic change with reference to business strategies and household behaviour. In that respect one can find similarities with *Régulation* school analysis. The new growth regime and the repercussions of the formulation of new mode of regulation discussed in *Régulation*-ist terminology reveal similarities with the coupon-pool capitalism formulation in CRESC studies. By also questioning the aura around "democratization of finance", these studies take a critical stance against the heroic characterization of finance (Ertürk et al. 2007). In this vein post-structuralist and sociological accounts can provide a supporting pillar. Still, the focus of CRESC on business strategies, financial institutions and the operations in capital markets place the team of researchers in a path different from those scholars whose efforts are directed to a critical understanding of "financialisation of everyday life" (Martin, 2002).

Various studies that could not be placed easily under the headers in the previous section, direct the attention to the politics of neoliberalism in advanced capitalist countries and changes on "corporate governance" with reference to the prominence of financial sector in European countries and the US. The general line of argumentation is pretty much the same in the analyses of financialisation of national economies and performance of corporations, an example of which can be found in Crotty's "neoliberal paradox". He claims that

> intense product market competition made it impossible for most NFCs to achieve high earnings most of the time, but financial markets demanded that NFCs generate ever-increasing earnings and ever-increasing payout ratios to financial agents or face falling stock prices and the threat of hostile takeover (Crotty, 2003: 272).

Blurring boundaries between financial corporations and NFCs has been emphasised within the literature as well (Stockhammer, 2004; Krippner, 2005; Orhangazi, 2008). To understand financialisation Krippner (2005) offers to document the financial expansion phase of the economy by examining the revenues of the firms. The negative impact of the financialisation upon further investment was noted by Stockhammer (2004) and Crotty (2003) among others. This line of argumentation is taken forward by Orhangazi (2008) who provided a comprehensive analysis of the stylized facts for the US economy and the review of the literature in tandem. Foster in his writings in *Monthly Review* underlined the link between wavering productive investment and growing financialisation. This time round, however, demand for financial innovations and products was a result of not intense competition among firms but a feature of new phase of what Baran and Sweezy called monopoly stage of capitalism (Foster, 2007). Among critical scholars only Panitch and Gindin (cited in Orhangazi, 2008: 59) reveal a contrast with the emergent consensus since they maintain that the requirements of financial market will not decline the revenue for reinvestment. Emergent consensus, however, does not provide the much needed answer to the question of how the financialisation underpinned the countertendencies to the falling profit rates or in what ways financialisation, despite the questionable viability of a "finance-led growth regime", gave its colour to the re-composition of the relations between finance and production, in countries other than the advanced capitalist ones.

The relative neglect of the countries labelled as “emerging markets” or “developing countries” in the literature of financialisation is very much related to the way the process as a whole is conceived by scholars. A constant awareness against the threat of an ideal-typical conceptualization of financialisation seems necessary for avoiding crude categorisation of countries. As argued by Engelen (2008: 114):

> Having originated in contexts which arguably have moved furthest in the direction of being truly ‘financialized’, i.e. the US and the UK, many scholars have simply assumed that financialization is a universal process, which articulates itself similarly in different institutional contexts and actually causes convergence towards an ideal-typical conceptualization of a financialized economy, which looks surprisingly similar to the picture of the US painted by its liberal critics. This reflects the logical properties that ‘financialization’ shares with sociological key concepts such as ‘modernization’, ‘secularization’ and ‘individualization’, that is: it contains an epochal perspective on social reality with teleological overtones and a suggestion of gradual spatial extension. To shed these properties, the financialization literature has to become more sensitive to contextual variables and the way these interact with the wider capitalist developments that the concept of financialization is purported to denote.

In her summary of the literature Montgomerie (2006) suggests that credit ratings, stock prices, asset and risk management together with the innovation in financial sphere constitute the bulk of the inquiry into financialisation. This statement can also be used to explain the major problems within the literature. Our survey has shown that, if taken in broad terms, the literature of financialisation can be criticised by pointing out some major and interrelated issues:

- The role of the state in the construction and deepening of financial markets is neglected to a great extent. As it can be seen in the respective approaches, the predisposition of WST to highlight the weakening position of hegemonic state prevents these theories from dealing explicitly with the countries which can be placed at the periphery or semi-periphery of the world system. The emphasis of *Régulation* School on the need for analysis of institutional forms in “emerging economies” remains as a promise to be fulfilled.

- Not only financialisation is grasped, in many accounts, as a depoliticised and non-state issue, but also the place occupied by government securities and the transactions based on the capitalisation of the future streams of state income are relegated to a secondary position. It can be claimed that CRESC researchers elaborate the atmospheric pressure of financial markets without considering the place occupied by government securities[17] within the coupon pool.

- This neglect is immanently related to the explicit focus on the advanced capitalist countries. The growing importance of financial markets for "emerging market" economies however cannot be decently explained without a focus on the public debt. It is not a coincidence that one of the few studies dealing with the financialisation in "emerging markets" (see Hardie, 2007) constrain itself with the transaction of the government securities and the increased ability to transfer government bonds and bills and hedge risk within the public debt market.

The relative concentration of attention on the intriguing features of deepened financial markets and socio-economic change in advanced capitalist countries reveals a threat of conceiving financialisation as something beyond grasp when the object of inquiry is the socio-economic transformation in other parts of the world. The emergent consensus can be criticised because of the relatively narrow understanding of financialisation. However, we are still at an early stage to mark the literature with particular irreversible tendencies. *Financialisation* is not *globalisation*, in that sense. If the stylised facts of economy are analysed in relation to the social struggles, legal regulations and political orientations and strategies, the weaknesses mentioned can be overcome.

The uneven and combined development of financialisation can only be explained by an extra focus on "emerging markets". These "markets" not only provided profitable outlets to international financial investors but also these "emerging market economies" were themselves financialised in due course. It can even be claimed that without the transfer of resources from the "emerging markets" to the advanced capitalist world[18] and the lucrative profit opportunities in developing economies the

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[17] Ertürk (2003) is a notable exception; however this has yet to become a point to be considered for CRESC as a whole.

[18] Boratav (2007, 2009) claims that despite regional variations, the periphery of the imperialist system transfers net resources to the advanced capitalist countries in the aftermath of financial liberalisation

pace of global financialisation would not accelerate at this level in the last two decades.

The financialisation in “emerging markets” advanced together with the GDP growth rates relatively higher and more volatile than the advanced capitalist world. The financial systems also revealed a variegated pattern. The process of financial deepening in some “emerging markets” was dominated by public securities as forms of fictitious capital symbolising claims on future state revenues. The details of the processes of financial deepening and an account of the form of integration of “emerging markets” into the world economy against the background of the financialisation of accumulation will enrich the literature.

2. 6. Conclusion

The ambiguity of the term and what I prefer to call polysemantic character is not one of a self-encrypted nature, but constructed through the studies of scholars of financialisation. It remains open whether their efforts will be effective in revealing the potential that the literature has in analysing the fundamental transformations and contradictions of global capitalism as well as national economies. Sticking with a particular definition of financialisation necessarily leaves many aspects of global and national transformations outside the analysis. It appears as an acceptable way to make the term operational by noticing its various dimensions on the one hand and establishing connections whenever possible on a multi-level basis. That is to say, the alleged financialisation of a national economy will not be documented properly without attaining a global perspective of capital accumulation. Indicating the contradictory character of the global capital accumulation is not possible without a detailed knowledge of the countries of “centres of accumulation” as much as their neighbour regions. Studies on a particular sector should be supported with the knowledge derived from analyses of macroeconomic regulations whereas household behaviour and uneasy identification of worker with the investor (see Langley, 2007) should be borne in mind for avoiding sweeping generalizations.

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wave. The importance of external capital movements for growth implies a new vicious cycle of dependency for periphery in the world system.

The problems of the literature, however, seem to remain solid and deep-seated. Financialisation literature avoided, up to this time, a comprehensive discussion of developing world with regards to strategy and transformations that financialisation brings about,[19] or the role of "emerging markets" with regards to the causes of financialisation. It remains biased toward Anglo-American world, as not enough discussion is made regarding the transformations of other important centres such as Germany and Japan. In the political economy literature of financialisation, the conception of global economy as the sum total of the isolated national economies, and the lack of a research agenda that focuses on the "emerging markets" undermine the potential of the influence that this literature, with its various offshoots, aimed. In addition, the alleged financialisation of the economies is conceived as a depoliticised and non-state issue,[20] in which the state does not play a role or at best, the impact of transformation upon state apparatus and the management of the economy or the role of state intervention paving the ground for financialisation is discussed with partial references. The state was there, however, at the very beginning of financialisation as well as at the times of crises to ensure reproduction of the mechanisms which seems to lead to the same crises.[21] This is not to say that states by bailing out financial institutions "ensure" the reproduction of financialised capitalism or will pave the ground, through economic regulations, for a post-financial system. State policy and economic regulations will be determined in relation to the social and political struggles. Reading the process of financialisation and the role and functions of the capitalist state in tandem may prove helpful in providing much needed answers.

For extending the discussion on financialisation and further contributions, it is necessary to point out the strengths and weaknesses of the previous studies. In this chapter, I have argued that the literature on financialisation is marked by studies focusing on the stylised facts of advanced capitalist countries and particularly

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[19] The discussipn of Becker et al. (2010) provides a notable exception. Their contribution is discussed in the fifth chapter.

[20] Studies employing Foucault's insights on the power and discourse point out that financialisation is not a given phenomenon but constructed in and through the processes of consent formation, but these seem to ignore the role of the state in the very same consent formation.

[21] See Fine (2010) for an emphasis on the role of the state in both moderation of the impact of financialisation and sustainment of the process.

Anglo-Saxon economies. The studies of various scholars from different perspectives provide a critical vantage in explaining financial instability and the transformation in the late 20^{th} and early 21^{st} centuries. It seems, however, necessary to integrate into the picture an analysis of “emerging markets” with relatively shallow financial markets. Financialisation should also be grasped in political terms, since construction and deepening of financial markets as well as the socialisation of the losses of financial sector are outcomes of political struggles and their success depends on the construction of hegemony. State intervention into financial markets and restructuring of the state in general can be read from such a perspective.

The critical role played by state in the extension of the logic of capitalisation and provision of legal-political framework for the financial transactions will be discussed in the fourth chapter. The issuance and transactions of valuable papers as claims on future income streams or future surplus value to be produced, not only form the basis of financial crises but also condition the ways the state intervene into financial sector and the markets. The third chapter will therefore elaborate the logic of capitalisation, fictitious capital formation and the role of financial derivatives as basics of financialisation.

CHAPTER III

ON FINANCIALISED ACCUMULATION
THE ROLE OF FICTITIOUS CAPITAL AND FINANCIAL DERIVATIVES

3. 1. Introduction

In his long editorial piece written after the credit crunch for *New Left Review*, Peter Gowan analyses the mechanisms of financial speculation and deregulation underlying the crisis in the centres of accumulation. The "epistemological break" Gowan offers (2009:5), which is vital for our concern of conceiving financialisation in an "emerging market", suggests that the crisis should not be related to the presupposed financial superstructure causing stormy weather upon the real sectors of the economy. It is rather the real sector subjects that push for deregulation and, then vision of finance as deceiver *via* funding speculative activities and taking role in the formation of bubbles. This is not to say that the financial speculation and logic of money-capital, i. e. perception of the process of production as a "necessary evil" (see Marx, 1992: 137) in the expansion of value, had nothing to do with the opening up of markets. As Gowan (2009: 23) states "economic globalization" proved functional for Atlantic business groups in their quest of covering the possible costs of crisis in the countries other than those which form the heartland. The panacea was thought to be further liberalisation pushed by IMF.

At this point of the argument, however, there occurs a major differentiation from the "epistemological break" argument mentioned by Gowan himself. The financial groups and operators seem to strip off their subject positions in the sense of becoming subject to the changes in the real sector and production sphere. When it comes to the countries of global South, for Gowan, they "have been deprived of their capacity to underwrite and control their own financial systems" (2009: 23). These countries are, by their place in the global economy, subject to the ups and downs of global accumulation of capital. But assuming the subordination of "developing countries" to the "economic globalization" as if it was something imposed from outside bears the risk of neglecting support, from the benches of members of the real sector, for deregulation of the economy and financial liberalisation. In many "emerging markets", financial liberalization and deepening of the financial markets were seen as conduits for the growth of manufacturing sector as well. Therefore, in order to stick with the very "epistemological break" suggested by Gowan, financial activities and speculation should be firmly linked to developments in the manufacturing and investments of NFCs, rather than proposing an incapacity or subordination as such.

The critique of "financialisation thesis"[22] by Foster (2007) refers to the tendency of the scholars of financialisation to explain sluggish GDP growth rates in advanced capitalist world with reference to the proliferation of profit opportunities through financial investment. Unless the rates of return in productive investment are taken into consideration, this tendency will make the research on finance veil the connections between productive sphere and financial markets. This point of stance relates to that of Marxist understanding of finance. The development of credit system was understood by Marx and Hilferding in relation to the needs of productive sectors of the economy.

This chapter aims to remind the links between production and finance. In order to do so, it starts with the mentioned critique of the particular understanding of financialisation. The third section provides a summary of the Marxist argument on fictitious capital and the discussions on the role of financial derivatives. It has been stated in the previous chapter that the devise of mechanisms for transaction of valuable papers as claims on future income streams can be seen as a precondition of financialisation. Fictitious capital speculation and transactions of futures and options are reflections of the extension of logic of capitalisation. For the logic of capitalisation to be used by business groups for accumulation of money-capital and/or investment into profitable fields the deepening of financial markets seems critical. The summary and discussion will relate these insights to the debates on

[22] This is not a critique of the conceptualisation of financialisation as such, but rather the popular jargon which disregards the troubles of productive sector and the push by business groups for deregulation and hence increased space for speculation.

changing character of capital accumulation in the fourth section. The conclusion, in which the need for a discussion of state intervention in the financialisation period is pointed out, restates the main arguments.

3. 2. Finance Capital and "Financialisation Thesis"

As put by Foster's critique (2007), "financialisation thesis" suggests that the increasing importance of financial assets for NFCs had deteriorating impact upon the growth rates of national economies. The stylised facts imply that the centres of accumulation suffer from a long halt of investment leading to sluggish rates of GDP growth. The process of financialisation, in that respect came to signify the relative distance maintained from the sphere of production which does not promise increasing returns. The emergent consensus is based on the claim that the increasing importance of financial activity in the functioning of economies not only makes these centres more fragile and financially unstable[23] but also leads to a kind of financialisation ideology in which the leveraged buy-outs and maximization of shareholder value are expected to provide wealth effects to those beneficiaries that will supposedly comprise wide sections of society. Within this equation, to the extent the subject position of investor (Langley, 2007) is fulfilled by citizens, they will obtain the necessary income for their needs, *quid pro quo*.

The argument of Foster (2007, cf. Wigan, 2009) is important since he dubs the financialisation in the "monopoly finance" phase as a way out of the difficulty caused by the slowdown in the rates of growth. This is not to say, the financial innovations and techniques provide an outlet through which the problems of investment will be resolved. Rather, it is the inverted version of the causality established by emergent consensus which declared financialisation as the major cause of the problems of global economy. It was the troubles of the monopoly capitalism which yielded the response of financialisation that was able to produce a weak recovery and temporary relief to be compensated by deepened conundrums. Through financialisation vast amounts of money-capital were mobilized and put into

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[23] See Nesvetailova (2006) for an analysis of financial crises of the 1990s.

the service of “financial capital”. Giants of global economy found their mainstay in the process of financialisation and pushed for it in order to overcome their problems.

The growing importance of financial assets for NFCs should therefore be explained with the problems in the sphere of production and the need for extending the opportunities for the mobilisation of capital. In that sense, the classical formulations regarding the importance of finance and the mechanisms of mobilisation of capital may prove helpful in conceptualisation of financialisation. To refer to the debate mentioned above, it seems that the call of Gowan for “epistemological break” was heard by Foster (2007) before it was made. Nevertheless Foster only introduced the insights of the theory of monopoly capitalism which can be traced back to even Hilferding and Lenin before Sweezy. In a nutshell it can be claimed that, the classical debate on the role of finance capital and the emergence of monopoly – related also to the question of imperialism in more political terms at that time – can provide useful insights.

It may also take us away from the fruitless contention prevalent in the debate which takes financialisation in a consequential manner. Whether, in the first case as the result of increasing pressures from financial circles, or as the consequence of the troubles of monopoly capitalism in the second, financialisation is regarded as the endpoint of whatever happened in the past. In this manner, it is treated as a late 20th century phenomenon and identified with the deregulations, liberalisation experiences and financial innovations of the epoch.[24] Financialisation, at the grass roots, may be considered as referring, alongside with growing significance of financial motives and financial actors, to increasing importance of finance in the circuit of capital and as such cannot be considered as the characteristic feature of only the late 20th century.

Certain income flows are regarded as the produce of capital loaned and the capitalisation of these flows is both a phenomenon related to the features of the

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[24] However, as Arrighi (1994, 2009) repeatedly mentions an analysis should acknowledge the recurrent character of financialisation, place the transformation in a macro historical framework and underline the importance of previous periods of financialisation as seen in the late 19th century and early 20th century, the period which formed the basis for classical discussions on capital export and the role of “finance capital”.

general circuit of capital and functional for the mobilisation of individual capitals. The general circuit of capital has the aim of expansion of value symbolised by the increased amount of money in the circuit. This form of expansion appears as self-valorisation from the viewpoint of money capitalist. Despite the fact that it is only in the productive sphere that the surplus value is produced, the link between valorisation of capital and the circuit of capital appears as weakening, thanks to the capitalisation of money flows. The popular use of the term finance capital demarcates financial capital from industrial capital and identifies finance capital with the former. The "financialisation thesis" (Foster, 2007), if based on such an assumption, suggest the ascendance of financial or speculative capital. Indeed, the contribution of Hilferding, made through a close investigation of joint stock corporation and the mobilization of capital and then the fusion of industrial and financial capital, by its definition points out a different process.

> An ever-increasing part of the capital of industry does not belong to the industrialists who use it. They are able to dispose over capital only through the banks, which represents the owners. On the other side, the banks have to invest an ever-increasing part of their capital in industry, and this way they become to a greater and greater extent industrial capitalists. I call bank capital, that is, capital in money form which is actually transformed in this way into industrial capital, finance capital (Hilferding, 1981: 225).

Hilferding's attempt to define the specificity of the era which can be characterised by domination of finance capital was understated by Baran and Sweezy, who insisted on the existence of a qualitative change in the twentieth century (Baran and Sweezy, 1966: 5). Nevertheless in his oft-quoted passages as much as in his theoretical arguments, Hilferding constantly revolved upon the specificities of capitalism qualified by the rise of monopoly.

> Finance capital develops with the development of the joint-stock company and reaches its peak with the monopolization of industry. Industrial earnings acquire a more secure and regular character, and so the possibilities for investing bank capital in industry are extended. But the bank disposes of bank capital, and the owners of the majority of the shares in the bank dominate the bank. It is clear that with the increasing concentration of property, the owners of the fictitious capital which gives power over the banks, and the owners of the capital which gives power over the industry, become increasingly the same people (Hilferding, 1981: 225).

For a more thorough reading of "finance capital" thesis, the role of banks underscored by Hilferding, because of his observations of the bank-based systems, should be revised in such a way as to include market-based systems (for a discussion of this distinction see Lapavitsas and Aybar, 2001). One reason of the ignorance of the conceptualisation of the mobilisation of capital as discussed by Hilferding may be sought in his references to the credit system as a net of interwoven relations between banks and corporations. It is for sure that the market-based systems reveal different characteristics. The mobilisation of capital, however, in stock exchange and the role of fictitious capital as revealed by Hilferding can provide a base for understanding the speculative activity also in market-based systems.

As the definition of finance capital is indeed the bank capital expended for industrial investment, the appearance of money capital as yielding money (M... M') remains one-sided. The period of "finance capital" symbolises, indeed the financing of huge firms and monopolies through the mobilisation of capital. The profit is multiplied several times by cartelisation whereas the flow of income itself is capitalised through the mechanisms of stock exchange and financial operations. The monopoly form is not devoid of contradictions; rather it is the reproduction of contradictory character of capital accumulation on a new basis (see Mandel, 1968). While on the one hand the opportunity for investing bank capital into industry seems to be extended, the rise of monopoly indicates the restriction of production and provides a disincentive for further investment even in the non-monopoly sectors because of the falling rates of profit.

> Consequently, while the volume of capital intended for accumulation increases rapidly, investment opportunities contract. This contradiction demands a solution, which it finds in the export of capital, though this is not in itself a consequence of cartelization. It is a phenomenon that is inseparable from capitalist development. But cartelization suddenly intensifies the contradiction and makes the export of capital an urgent matter (Hilferding, 1981: 234).

The main tenets of the "finance capital" argument developed by Hilferding had important repercussions for both Marxist polemical debates and definitions of twentieth century capitalism. The rise of finance capital was a prelude to the "organized capitalism" in Hilferding's eyes (Harris, 1991: 200).[25] By focusing upon the legacy of "finance capital" thesis and the way Hilferding portrayed banks, it is suggested that his discussion of the relations between financial capital and industrial capital can be considered *passé* (see Lapavitsas, 2009a, cf. Orhangazi, 2008: 43). There can be two objections against such a point, none of which is based on the viability of the concept as such, of "finance capital" as it was formulated. First one is the fact that the repercussions of the argument cannot be limited to intra-Marxism debate of the early twentieth century. Baran and Sweezy (1966) relied on the rise of monopoly in their discussion of monopoly capitalism. In their perspective monopoly capitalism was qualitatively different from the preceding competitive period of capitalism. This did not mean the end of competition in the new era (1966: 67, cf. Mandel, 1968: 434). From their point of view the surplus[26] produced had a tendency to rise because of the monopoly cost and price tactics. The economic system could have been considered as working properly if the surplus could ever be absorbed through investment and consumption. The repercussions of the rise of monopoly and the structural change of capitalism could not be avoided by technical innovations or the stimulation of demand. They maintained that:

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[25] It was interpreted in a different manner by Lenin and Bukharin. Lenin did not challenge Hilferding's definition and use of the term but the political repercussions. Writing in the atmosphere of I. World War, he emphasized the inevitability of war given the rise of monopoly and the division of world among capitalist cartels. The capitalist class had nothing to do but resort wars for re-division of the colonies under the influence of finance capital. In his polemic against Kautsky's "ultra-imperialism", he maintained the position that the cartelisation could not be read as the end of fierce competition among capitalist class and imperialist powers that are indeed crystallisation of capitalist cartels. For Lenin, "the general alliance embracing *all* the imperialist powers is *inevitably* nothing more than a 'truce' in periods between wars" (1934: 114). Luxemburg also looked at the period of finance capital and the rise of monopoly through the lens of capital export. Her interpretation and revision of Marx asserted that the expanded reproduction of capital accumulation necessitated territories on which pre-capitalist modes prevailed. Though the assumption of Luxemburg, as reflection of then widespread expectation derived from anticipating the collapse of capitalism, was falsified, her questions seemed to comprise early formulations of the monopoly capitalism arguments. "If an increasing part of the surplus value" asked Luxemburg (2003: 314) in her elaboration of Marx's schemes of reproduction, "is not consumed by the capitalists but employed in the expansion of production, what, then are the forms of social reproduction?". The persistence of capitalist accumulation necessitated non-capitalist social organizations, which would otherwise bring about the end of realisation of surplus value embedded in commodities that cannot be sold. Her answer conjoined the Marxist theories of imperialism based on the necessity of capital export. Another explanation may also be found in the same works who underscored the phenomenal growth of "coupon clippers" and the transformation of a significant part of capitalist class into rentiers (see Lenin, 1934: 96).

[26] Baran and Sweezy did not prefer to use "surplus value" as they thought that surplus value may assume forms other than rent, profit and interest. They also based their stagnation theory on the inability of the system to absorb surplus rather than the law of the tendency of the rates of profit to fall.

> Twist and turn as one will, there is no way to avoid the conclusion that monopoly capitalism is a self-contradictory system. It tends to generate ever more surplus, yet it fails to provide the consumption and investment outlets required for the absorption of a rising surplus and hence for the smooth working of the system. Since surplus which cannot be absorbed will not be produced, it follows that the *normal* state of the monopoly capitalist economy is stagnation (Baran and Sweezy, 1966: 108).

This is the main line repeated by Sweezy (1994, see also Sweezy and Magdoff, 1987) nearly three decades later. His later notion of "the triumph of financial capital" indicates that in order to refrain from the problem of excess capacity, capital was channelled into financial assets, which resulted in historical ascendancy of financial capital. This perspective is repeatedly emphasized by Foster (2007) in his critique of the "financialisation thesis", i.e. the claim that the slowdown of the economy was a result of the increasing dominance of finance. In contrast, Foster asserts as it was mentioned before that, it was the stagnation of the economy, a characteristic feature of the monopoly stage of capitalism, which paved the ground for the ascendancy of finance. Foster (2007, 2010) names the period of financialisation as the "monopoly finance capitalism", which was indeed the reaction against stagnation and proved helpful for capitalists in deferring the crisis tendencies, at least for some years with a cost of creating speculative bubbles destined to burst.

Second possible objection is just as important since the way Hilferding reached to the concept of "finance capital" and his discussion of fictitious capital and capitalization should be re-emphasized for an elaboration of financialisation on a more concrete level. Hilferding (1981) followed Marx and claimed that every flow of income can be capitalized and the development of credit system had important effects on the organization of capitalism. His work cannot be used as a guide for understanding the chunk of complexities in today's financial systems, but provides critical insights with reference to the capitalisation of corporate profits and income from state bonds.

The importance of debate on "finance capital" is not that it can be used to explain the financialisation in the late twentieth century. It is rather the method and insights of previous scholars that should be taken into consideration. Three main points can be inferred:

- The development of credit system and the ascendance of financial sector in national economy cannot be grasped without considering the developments in industrial production. Financing needs of corporations and the search for alternative mechanisms for the mobilisation of capital boosts the financial sector.

- Capital flows to developing world should be grasped in relation to contraction of opportunities in countries occupying the core of the capitalist system. These should also be grasped in political terms since the export of capital aims to extend the relations of dependency between the core and periphery.

- The transformation of significant part of the capitalist class to coupon-clippers and the integration of the developing world into the global capitalism do not resolve the contradictions of capitalist mode of production but creates further tensions. Unless these transformations are countered with strong social and political movements, the answer provided by academic circles, financial experts and political and economic elite will serve further capitalisation of streams of income and devising mechanisms for business groups to make utmost profit from crises.

Taking into account that every flow of income can be capitalised and be subject to speculation in the capitalist mode of production can provide a solid base around which the incessant journey from abstract to concrete and concrete to abstract takes place. This can be done with the review of fictitious capital and the elaboration of the role of financial derivatives.

3. 3. "Accumulate, Accumulate! That is Moses and the Prophets"[27]

3. 3. 1. Fictitious Capital

The recent credit crunch and the illiquidity of the investment banks are related to the new techniques of claiming wealth on future payments of the debtors, taking its form in CDOs, i.e. the packaged pieces of debts to be sold in the financial market. It has a common element with the conventional stock exchange operations in the sense of the quality of exchanged papers. Both the shares of the corporations and the CDOs held by the investor are objects of concern and evaluated from the viewpoint of the investor on the basis of the yield they will produce. Whereas the CDOs, say, symbolising the debt of homeowners and various forms of debt instruments, promise the flow of a part of the debtor's income, the shares promise a flow of the part of the surplus value to be produced in the sphere of production. Their similarity is clear however, from the viewpoint of the investor, no matter if it is an investment bank or a pension fund controlling huge cash reserves. It is the promise of a future income that is exchanged in the financial sphere.

The form is either debt payment or dividend whilst the essence remains the same. Capitalisation of future income implies the formation of a capital that does not exist in real terms but functions as if it does. Put differently, through capitalisation of future income, the money circuit of capital is put in exteriority with the production process, the "necessary evil for the sake of money making" (Marx, 1992: 137). The exchange of promissory notes and their nominal value depends on the interest rate and the speculation on future income. On such a terrain, M – C… P… C' – M' takes the form of M...M'. For money-dealer or financial investor in our case, it appears as interest-bearing capital (see Marx, 1991: chapter 21). Capitalisation of future income, through the formation of a capital that does not exist, is indeed an abstraction from the sphere of production. Its reflections upon the process of production will not be covered in detail in this section, but for a better understanding

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[27] This sentence was used by Marx (1996) in the 24th chapter of the first volume of *Capital*. Originally intended for explaining the classical economic conception of capitalist as a tool for conversion of surplus value into additional capital, it turned into a phrase used by many to remind the Marxian understanding that capitalist compulsion to accumulate more and more will bring about further commodification on the one hand and intensify the competition between capitalists and concentration of capital in particular hands on the other.

of its importance, we need to go over the arguments and definitions of Marx and Hilferding.

3. 3. 1. 1. The Conceptualisation of Fictitious Capital by Marx and Hilferding

Fictitious capital is a "title to value" (Marx, 1991) in a similar manner to the loanable money capital. For loan capital exists as "a claim to money" in Marx's words it is purely fictitious in the sense of being a claim to the value to be extracted in the sphere of production. The accumulation of these claims do not necessarily appear as related to the accumulation whereas the actual accumulation process, in light of the general formula of capital, would form the basis on which the value to be claimed would be realised.

In his notes edited by Engels to compose the third volume of *Capital*, Marx dealt with the process of capitalisation and asserted that it formed the essence of fictitious capital formation. For Marx, "[T]he form of interest-bearing capital makes any definite and regular monetary revenue appear as the interest on a capital, whether it actually derives from a capital or not. The money income is first transformed into interest, and with the interest we then have the capital from which it derives." (1991: 595). This basic process appears to weaken the conception of the link of the expansion of value with the production process and the calculation of the income as "the sum that a capital lent out at this [average] interest rate would yield" (ibid., p. 597) gives an image of capital as valorised without any connection to the actual circuit of capital. The paper which will secure the payment of dividend is indeed, the title of ownership which does not represent capital in itself but the claim to part of the surplus value to be expropriated in the sphere of production. The government bonds are also promissory notes that are claims on state's revenue. "The independent movement of these ownership titles' values, not only of government bonds but also of shares, strengthens the illusion that they constitute real capital besides the capital or claim to which they may give title" (ibid, p. 598). The determination of the prices of these tradable titles gives enough space to speculative activity since, for example, the market-value of shares depends on the anticipated income as well. Marx demarcates the bonds, the annual income of which is fixed, and maintains that their market-value is determined by the average rate of interest.

Their fictitious character derives not from their independence from "real" capital, but the fact that the money loaned is spent (i. e. consumed unproductively) and does not initiate a circuit as seen in the general formula of capital. This, however, does not change the essence of his argument: "All these securities actually represent nothing more but accumulated claims, or legal titles, to future production. Their money or capital value either does not represent capital at all, as in the case of national debts, or is determined independently of the real capital value they represent" (ibid, p. 599).

The formation of fictitious capital and capitalisation of future income appears as not one of a game of private money lenders but critical for development of credit system. Banks, through holding these papers symbolising fictitious capital, fulfil their reserve fund requirements and collect the idle money and transform it into loanable capital while at the same time provide channels for integration of the "public" into the process of capitalisation through deposits in every kind:

> The banks' reserve funds, in countries of developed capitalist production, always express the average amount of money existing as a hoard, and a part of this hoard itself consists of paper, mere drafts on gold, which have no value of their own. The greater part of banker's capital is, therefore purely fictitious and consists of claims (bills of exchange), and shares (drafts on future revenues). It should not be forgotten here that this capital's money-value, as represented by these papers in the banker's safe is completely fictitious, even in so far as they are drafts on certain assured revenues (as with government securities), or ownership titles to real capital (as with shares), their money value being determined differently from the value of the actual capital that they at least partially represent; or, where they represent only a claim to revenue and not capital at all, the claim to the same revenue is expressed in a constantly changing fictitious money capital. Added to this is the fact that this fictitious capital of the banker represents to a large extent, not his own capital, but rather that of the public, who deposit with him, whether with interest or without (Marx, 1991: 600)[28]

In his notes, Marx did not develop a deepened analysis of the credit system and its repercussions for the expanded reproduction of capital. It would be the work of Hilferding, to compound theoretical tools by employing empirical data of the early

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28 In the edition published by International Publishers which was also transcribed for the internet, the sentence in which the parts of banker's capital are counted is as follows: "The greater portion of banker's capital is, therefore, purely fictitious and consists of claims (bills of exchange), government securities (which represent spent capital), and stocks (drafts on future revenue)." http://www.marxists.org/archive/marx/works/1894-c3/index.htm , p. 324.

twentieth century. Nevertheless, "form analysis"[29] of Marx and his defetishising critique can be well applied to the portrayed discussion of the fictitious capital. It is, indeed, a form which derives from the fact that every revenue appears as interest and the money income itself is capitalised since the income is regarded as the produce of loaned capital. The form of the fictitious capital, whether in government bonds or stock shares, plays a vital role for the expanded reproduction.

The conceptualisation of Marx has three repercussions which remain important for both understanding Hilferding's comments and conceiving speculation on fictitious capital. In the first place, the emergence of promoter's profits, i. e. the profit of the original investors, derived from selling the shares of the corporation in case of which the return on capital invested is higher than the average interest rate, can function as an incentive for gathering small amounts of money and centralization of capital, as Hilferding (1981) noted. The mobilization of capital is crucial in that respect and it cannot be confined to the increased amount of money in the hands of corporate managers. It means accumulation of funds for further investment and at the same time creation of a milieu in which the capital flows as if it needs not to be fixed for surplus value extraction. Hence, secondly, on a more abstract level, the speculative operations on and the trade of these claims provide an opportunity for capital to defer temporarily the problems emanating from the sphere of production. By increasing revenues from speculative activities and share operations, the problem of profitability for individual capitalist can be compensated to some extent. Finally, the weakening ties with the actual capital invested in the production leads to an appearance through which the expansion of value is attributed either to money as such, or the mystical characteristics of value claimed to be self-expanding. The economists, whom Marx criticised, focused on the money-circuit of capital as something to justify the self-expansion of value, or at best, to portray the expansion of value as something not directly related to the expropriation of the producers.

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[29] Hegelian terminology acknowledged in Marx's works and his distinction between form and essence of the phenomenon observed are taken as the basis of a methodological departure, by many neo-Marxists, from the dogmatic and structuralist interpretations of Marx. Burnham (1994) provides an evaluation on the importance of form analysis within the context of international political economy.

The work of Hilferding (1981), especially the first part, can be seen as an enhanced review of Marx's notes and writings on the money form and the development of credit system. In the following parts, he introduced the concept "finance capital" to underscore the importance of banks and the phenomenon of "the fusion of industrial and financial capital". For Hilferding, the rise of finance capital not only meant the concentration of savings in the hands of banks which sought control of firms, but also went hand in hand with the meeting of financial needs of the monopolies which arise out of concentration and centralization tendencies inherent in the capitalist mode of production (see Harris, 1991: 200).

Hilferding dwelt upon the operations of joint stock corporations and the meaning of stock shares before elaborating his conception of finance capital. His contribution on the discussion of fictitious capital remained under the shadow of the popularity of the concept of "finance capital". It seems that, however, the mobilisation of capital through the form of joint stock corporation and the transfer of shares in the stock exchange is a *sine qua non* of the development of the capitalist credit system which consolidates the tendencies of concentration and centralization. Then, we may not speak of monopoly of banks with regards to their privileged position of collecting the idle money in the system and putting in the service of the industrialist. Banks, aside from their vital role of money creation (Hall, 1992), can play critical roles in that sense but the form of joint stock corporation, in a different vein, can also mobilise huge revenues for the use of capitalist investor. Such a reading of Hilferding is not only possible (cf. Brewer, 1990), but also a must when his approach to fictitious capital is taken into consideration. Exchange of shares is the exchange of claims to future income flows. Hilferding's style adds further complexity to the issue discussed. Though he contrasts, from time to time, the fixity of capital investment with the mobility provided by share operations while at the same time implying that the money mobilised by the shares can be incorporated in productive investment, it should be mentioned that the exchange of claims to money should not be mixed with productive investment of any kind:

> In the case of government bonds ... [the money] may have been withdrawn from productive uses for a long time, and thus ceased to exist; or if it was put into industrial shares, it has been used to buy constant and variable capital, has served as a means of purchase and its value is now incorporated in the elements of productive capital. The money is in the hands of the sellers of this productive capital and will never return to its starting point. It follows, therefore, that shares cannot represent this money, because it has now passed to the sellers of commodities (of the elements of productive capital) and has become their property. But neither do they in any way represent the productive capital itself. In the first place, the shareholders have no claim to any part of the productive capital, but only to the yield; and second, the share, unlike vouchers of bills of lading, does not represent any specific use value, as it would have to do if it were really a share in the capital actually used in production, but is only a claim to a certain amount of money. It is this which constitutes the 'mobilization' of industrial capital. This money is, however, nothing more than the yield capitalized at the current rate of interest. Hence the yield or annual income, is the basis on which the certificates are valued, and only after the yield is known is the amount of money calculated (Hilferding, 1981: 130-131).

The original investment facilitates the production whereas the exchange of shares is not related to the actual capital invested. The nominal value of the shares operating on the stock exchange can exceed the actual capital invested (market value added) and the capitalization of the income flow, leads to fictitious capital formation. In our concern, the formation of fictitious capital does not collect the money in the sense of commercial banks, but it provides the opportunity for mobilisation of capital (see Lapavitsas and Mavroudeas, 1999). In the first place the original investor may choose to invest (productively) in another branch or sector by using the money he received through selling his shares (Hilferding, 1981: 140). In another instance the financial investor may choose to buy shares and receive dividend payments rather than lend money and expect interest income (Foley, 1991: 116). In such a case the investment does not add up to the original productive capital but the capitalist buys simply the shares which "represent a claim on a certain flow of income arising from the residual profit of enterprise" (ibid.). In both cases the mobilisation of capital as Hilferding (1981) maintained, is facilitated by the form of joint stock corporation and made possible through stock exchange operations (see also de Paula et al., 2001). Fictitious capital formation, i. e. the capitalisation of certain flows of incomes which are indeed nothing but either part of the profit derived from the surplus value to be expropriated in the production process or part of the annual tax income to be gathered within the borders of the state, supports the illusion that value expands itself.[30] As such, it is a perverted form, appearance of which challenges the essence, the underlying social relations within a particular mode of production (see Bonefeld, 2001). Hilferding emphasizes the deception created by fictitious capital as follows:

> The share... may be defined as a title to income, a creditor's claim upon future production, or claim upon profit. Since the profit is capitalized and the capitalized sum constitutes the price of the share, the price of the share seems to contain a second capital. But this is an illusion. What really exists is the industrial capital and its profit. But this does not prevent the fictitious 'capital' from existing in an accounting sense and from being treated as 'share capital'. In reality it is not capital, but only the price of a revenue; a price which is possible only because in capitalist society every sum of money yields an income and therefore every income appears to be the product of a sum of money. If this deception is assisted in the case of industrial shares by the existence of genuinely functioning industrial capital, the fictitious and purely accounting nature of this paper capital becomes unmistakable in the case of other claims to revenue. State bonds need not in any way represent existing capital. The money lent by the state's creditors could long ago have gone up in smoke. State bonds are nothing but the price of a share in the annual tax yield, which is the product of a quite different capital than that which was, in its time, expended unproductively (Hilferding, 1981: 110-111).

Hilferding, following Marx, suggested that state bonds were of purely fictitious nature, as there was no capital functioning to support the deception as in the case of industrial shares. This distinction of industrial shares and state bonds however should be approached with a caution as the public expenditure financed through the funds derived from issuing state bonds need not necessarily be consumed unproductively. As a matter of fact, the developmentalist discourse of the post-war era and the practice of various developing countries suggested the productive consumption of these funds. Even if they are consumed unproductively, it should not be skipped that the unproductive functioning of the state itself can be considered a must for the consolidation of class rule and reproduction of the conditions for productive circuit of capital,[31] secured by the help of ideological and repressive apparatuses.

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[30] For a Marxist discussion of the fictitious capital speculation and its role in capitalist accumulation and instability, see Satlıgan (1988).

[31] The argument here relates to that of Savran and Tonak (1999) and their discussion on the distinction between productive and unproductive labour.

This lack of assistance through functioning capital, in the case of state bonds, diverts the attention of Hilferding to the joint stock corporations and shortcuts a possible discussion on the state bonds. All the same, what Hilferding wrote for the role of speculation may be regarded as equally true for the state (or government) bonds as a form of fictitious capital:

> [S]peculation creates an ever ready market for the securities which it controls itself, and thus gives other capitalist groups the opportunity to convert their fictitious capital into real capital, to change from one investment in fictitious capital to another, and to convert fictitious capital back into money capital at any time...[T]he fact that speculation is unproductive, that it is a form of gambling and betting (and is rightly regarded as such by public opinion) does not run counter to its necessity in a capitalist society... (Hilferding, 1981: 137-138).

Two tentative conclusions with regards to state bonds can be reached: The first one is the need to consider the state bonds with their contribution to the speculation mentioned. State bonds can also be a matter of speculation in the sense of securities (stock shares) given the necessary regulations-deregulations. As such they can help the speculative atmosphere in which the fictitious capital is converted into money capital at any time. Certainly, it needs detailed spatial-historical analysis to delineate the mechanisms and their contribution to speculation. This is not to say that the speculation mechanisms need to be the same as in those of stock shares. The fixed income GDI cannot be object of speculation to the same extent as stock shares with dividend payments can be, or the CDS which can be used as a hedge mechanism as well as speculation on corporate default. Mechanisms, however, such as short selling of government bonds and secondary markets in which these debt instruments are exchanged reveal that there can be such a path for speculation. Secondly, their "unproductive" character, though it may not be so as mentioned before, does not indicate their uselessness. On the contrary, this particular form of the fictitious capital functions for the transfer of income and helps the accumulation of necessary funds in the hands of the capitalist. It is a way of mobilising capital and can be considered necessary as well, though the formation and operation of a debt scheme cannot be directly related to the will of capitalist class. In this particular manner, it is necessary for the capitalist not only to convince the public to run the debt scheme but also make the utmost profit from this financial investment. The actual money invested might "have gone up in smoke" in the case of state bonds when considered from a point of view attributing a high level of importance to productive investment. Nevertheless, when looked from a point of view that puts forth the functioning of the state and the role of the state, the money invested certainly functions for the expanded reproduction of capital.

From such a critical reading of Hilferding, it can be inferred that fictitious capital accumulation should not only be grasped as the accumulation of claims beside the real capital. It is, nevertheless, critical for the mobilization as well as accumulation of capital. State bonds should not be seen as an exception, neither the new forms of fictitious capital (see Guttman, 2008) which also symbolise the financialisation of the individual income. Fictitious capital is not the distortion of real economy but an extension of the development of capitalist credit system. As such, it provides channels for speculative investment on the one hand and supports the expanded reproduction of capital accumulation on the other. These contradictory functions assumed by fictitious capital are the outcomes of the logic of capitalization, It is this contradiction-in-unity of increased speculative investment and mobilization of industrial capital what puzzled many critical scholars.

As Perelman (1990) suggests, Marx himself was keen on underlining the critical role played by finance in driving the production further by overcoming the barriers in front of accumulation. The contradiction was that everything in the financial world appeared distorted. The claim on future income becomes fictitious in the sense that there remains no mechanism that reflects the underlying production and the labour values. In Perelman's (1990: 81) words, "… movements in prices begin to reflect movements in the circuit of fictitious capital more than the changes in the underlying production system." The accumulation of fictitious capital, on the other hand, definitely impacts upon economic activity and productive investment. The problem remains in the portrayal of fictitious capital as distorting "real" economy and creating imbalances (see Perelman, 1990: 82-83) while speculation and financial operations are internally related to the process of capital accumulation. For that reason a discussion on fictitious capital should acknowledge both the ramifications in the production process and the implications for the development of the financial sector.

3. 3. 2. Risk Management and Financial Derivatives

Commons (1990: 390) mentioned that the initial analyses of capitalism had received support from the theories of liberty and reason but actually the foundation of modern capitalism could be found in the history of debt; and described the field of political economy as "not a science of individual liberty, but a science of the creation, negotiability, release and scarcity of debt". To give a definition of the political economy of financialisation or to point out the crucial emphasis in the social studies of finance we need to integrate into the picture the element of risk and the mechanisms that are devised for risk management. The unprecedented increase in the volume of financial derivatives trade and the ideology of risk management gave their colour to the financialisation in the last couple of decades. One can even argue that studies of political economy within the field of finance underlined the importance of risk in such a fashion that political economy has turned, at least for a considerable number of academics, into the study of calculation, management, trade and distribution of risk.

The study of risk management can be understood as an extension of the powerful logic of capitalization. It is not only the capitalization of certain flows of income or future income streams but also the capitalization of uncertainty and ambiguity, when it comes to the issue of risk management and construction of models for calculating risks. The uncertainty and ambiguity is related to the production and exchange and thereby related to future income streams. These compose the main elements of financial risk management in which the major effort is spent for devising intertemporal links in order to reduce uncertainty or to make it known for the investor.

The collapse of the fixed exchange rate based international monetary system and the financial liberalization wave in the last quarter of 20th century have increased the need to hedge against risk on the side of firms. The theory of finance has been at the service for meeting the demand of financial investors. According to Mackenzie (2004) financial theory not only tried to explain the growing complexity of financial transactions but also shaped the financial reality and paved the ground for a significant transformation of capitalism. Performativity[32], to use the terminology of those who highlighted the critical fact that theory was always *for someone* and *for some purpose* (see Cox, 1981) meant in such a context that the financial theory cleared the way for securitization and financial investment. It did so by presenting risk as something to be calculated and managed.

Risk-based pricing models were devised to price the financial derivatives and enable the transfer of various forms of risks. In a sense, there is an ambiguity in the use of the term risk, since it is defined with reference to the determinate aspects related to the present, about which the investor or agent has a fair amount of information. The uncertainty on the other hand is defined as something related to the future and in that sense unknowable to some extent (see O'Hara, 2009, Best, 2010). What we face as a result of the models for assessing the risk actually blurs the boundaries drawn with analytical concerns. The quantitative models claim to assess both the uncertainty and risk. Although future is unknowable, the models claim to provide reliable calculations regarding future through abstraction and simplification. The controversy surrounding their application did not prevent them from becoming hallmarks of the functioning of financial markets. In Langley's (2010: 75) words:

> Prices may symbolise, for example, underlying calculations about the future value of commodities or movements in an index. But, in contemporary modern financial markets, the 'thing' that is being valued and symbolised through price has been, increasingly and in effect, uncertainties and volatilities about future income streams calculated as risks. In enacting and bringing about the risks that they name and price, calculative devices have certainly remained historically contingent and sensitive to habits, customs, circumstances and controversies about their empirical validity (Beunza and Garud 2007). However, the performative forces of risk calculations are nonetheless crucial to the materialisation of financial markets for a bewildering array of assets, especially in the historically unprecedented period of financial accumulation prior to the subprime crisis.

The importance of the performativity of the risk calculation resides in the fact that once the risk is known and calculated, investors could devise profitable transactions.

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[32] The term is used to underline that economics as scientific discipline does not only describe market but also performs them. Coined first in the field of philosophy of language then used in the field of economics, performativity, in general means, the discourse "contributes to the construction of the reality that it decribes" and explains (Callon, 2007: 316). The use of the models for financial risk management, for example, contributed to the transaction of risk and probability of default in the market.

This meant that the creation of securitized investment vehicles pushed further by international regulatory changes (Wigan, 2010:111) was grasped as something useful for the financial deepening. Financial models for the calculation of risk supported the discourse of efficiency of the financial markets. Once the question was perceived as one of better risk management, not the securitization or the derivative trade but the lacking regulation or the quality of regulation was singled out as the major problem. As mentioned by Best (2010: 35) "Securitisation was supposed to diversify the risk of loans and other investments and to disperse it among a wider range of investors rather than concentrating it in the originating banks and other institutions." Financial derivatives were believed to provide the necessary information and the process of securitization together with the originate-to-distribute model (OTD) was supposed to provide benefits for not only financial investors and banks in particular but also financial system and economy as a whole in general.

As shown within the analyses of the recent credit crunch OTD model did not function as it was supposed to do. "At the heart of the [2007-2009] crisis lies the originate-to-distribute model. In the simplest of terms this involves accelerating debt creation on the basis of the capacity to move assets off the books by selling them." (Wigan, 2010: 111). Since the originator did not have to keep the loan in its books, thanks to securitization and international regulations, it seemed as if the exposure to risk was being commodified through financial innovation. Banks have found ways to package securities in line with the demands of institutional investors. Synthetic products such as CDS, which promised to underwrite the transaction in question, were created to extend this profitable transfer of risk. The interesting thing about this financial risk management was that there was no limitation of supply since for example "CDS index trader buys and sells movements in perceptions of default probability" (Wigan, 2010: 116)

OTD model is based on the assumption that the risk will be borne by those who wish to do so since the securitization and the risk management will provide the means for a genuine assessment. As it is clearer in the aftermath of credit crunch, "valuations of risk proved contradictory and unravelled in the face of incalculable uncertainties, distrust and fear" (Langley, 2010: 77). Despite the failure of the OTD model and the risk management perspective behind the model, IFIs insisted on the efficiency of the model and pointed out the need for better risk management as the basic tenet for financial reform (Best, 2010: 38).

According to Best (2010), methods such as “value at risk” were not efficient representations of the reality and the approach dominant in financial markets in the last decades was fuelling a naïve perspective on how things work. The valuation of structured securities is done in such a way that what the firm sells for in an open market is used as the benchmark. This leads to a kind pro-cyclicality in that firms are encouraged to buy and borrow more in good times, while they will have to sell off further assets when things get worse. Put differently, the exigencies to real economic volatilities and future income streams are lost in the performative valuation of risk (Langley, 2010: 85-86),

It is the puzzling gift of standard economic thinking that financial risk is conceived as something to be measured and quantified through models of financial risk management. The proliferation of derivatives trade is pointed out as the indicator of the recent global economic transformation during which the financial investors had a new and efficient tool to calculate and hedge risk. Even after the international financial crisis of 2007-2009, scholars continue to believe in the efficiency of derivatives and exotic financial products whose abridged names form a soup of alphabet. As an example, Hull (2009), whose work on derivatives has gone to a remarkable seventh edition, mentions that we can learn from derivatives if the risk limits are taken seriously and a complementary evaluation of the market is done properly. The financial investors can use derivatives in an effective manner if they consider the liquidity risk and do not trust the models they use in a blindfolded manner.

This belief in the efficiency rests upon a particular epistemological understanding dominant in standard economic thinking. Financial community takes risk in a naturalistic manner, “as the contemporary elaboration of a universal confrontation with uncertainty” and this stance “brackets twin issues: the social embeddedness of risk and the process by which agents construct risks as social facts” (LiPuma and Lee, 2004: 54). Derivative is an instrument necessarily biased against the social and cultural differences. If these differences are worth considering, it is generally in the form of a risk premium within the transaction which takes into consideration the counterparty risk, i. e. the possibility of default or restructuring the terms after the deal. Economic discourse does not take into account the substantial differences in terms of the construction of derivatives. To "objectify the derivative as an exclusively formal and quantifiable entity, one that can be analyzed using mathematical modelling techniques borrowed from physics, it is necessary to set aside the socio-historical dimensions of circulation" (LiPuma and Lee, 2004: 64).[33]

An ahistorical understanding of risk portrays it as a universal and transcendent phenomenon which the human race has to face with ever-changing methods. Financial derivatives appear, in such an understanding as kind of a natural extension of the incessant effort to cope with the risk. To emphasize the historical nature and the social character of risk, it seems meaningful to suggest that the risk discourse itself, in which we are talking, is a historical product. The performativity of the financial models which portrayed risk as something to be calculated should remind us that thanks to the stochastic models employed, the risk was conceived as something that could be decomposed and concretized so that it could be packaged and sold. The trick of the financial derivative lies in the fact that, the proliferation of financial derivatives spread the risk to many corners of the world while this proliferation depended on the presentation of risk as something to be managed thanks to the financial techniques used for constructing financial derivatives.

LiPuma and Lee (2004: 33-34) define derivative as "a species of transactable contract in which (1) there is no movement of capital until its settlement, (2) the change in the price of the underlying asset determines the value of the contract, and (3) the contract has some specified expiration date in the future". It appears as a fetishised representation of complex reality since not the underlying asset or flow from which the derivative is derived but the change in the price of the asset or the change in the anticipation of the future flow determines the terms of the derivative

[33] LiPuma and Lee (2004) argue for the emergence of circulatory regime of accumulation. They attribute a significant level of importance to the speculative capital and claim that the circulation appears as the sphere in which more surplus value is appropriated. Cultures of circulation are important as they form the field on which core countries rely for reproduction of the global system. I tend to read their lines as an emphasis on the socio-cultural dimensions of relations of production.

contract. In the words of Martin et al. (2008: 126) "[t]he central, universal characteristic of derivatives is their capacity to 'dismantle' or 'unbundle' any asset into constituent attributes and trade those attributes without trading the asset itself". The derivatives, in that sense provide a measurement for the asset performance on the one hand and function as a tool of speculation on the other. The complicated side will be seen in clearer terms when the relation between fictitious capital formation and financial derivatives is taken into consideration. If the asset is assumed to be a future income stream, then it can be argued that the change in the underlying income stream would affect the derivative contract. It is not the claim to this income or capitalised value but the volatility of this stream that will determine the terms of the derivative contract. The derivative contract in that case, will be used as a vehicle for the measurement of a particular stream and serve for hedging the risk. Nevertheless, a financial derivative is more than a financial product tailored for investor purposes and it may also pave the ground for further speculative activity. These interwoven functions of derivatives create a controversy in understanding this financial product.

Despite their criticism of the efficient market theory and the naïve belief in the markets by the financial investors, Bryan and Rafferty (2006, 2007) suggested that derivatives performed critical functions for the accumulation. They claimed that if we went beyond the discourse of risk and speculation, derivatives would be considered as "behind the scenes" money, as they ensured "that different forms of asset (and money)… [were] commensurated not by state decree (e.g. fixed exchange rates) but by competitive force" (Bryan and Rafferty, 2007: 153). Two dimensions of the functions they perform are emphasized in their various accounts. First one is binding: "derivatives, through options and futures, establish pricing relationships that 'bind' the future to the present or one place to another." Second one is blending: "derivatives, especially through swaps, establish pricing relationships that readily convert between ('commensurate') different forms of asset." (Bryan and Rafferty, 2007: 140, 2006: 12)

From their point of view, the orthodox finance theory focuses upon the trading and management of risk while the crucial point for derivatives should be sought in the "separating attributes of an asset from the asset itself" (Bryan and Rafferty, 2006: 52). Through such dismantling, derivatives intensify the competition in the circuit of capital accumulation. In their explanation of the changing dynamic of capital accumulation, derivatives symbolize a further degree of separation than the separation of ownership and control of corporation (the emergence of joint stock company). The question is that, if the underlying asset does not change hands in derivative transaction, how is it possible for a commodity or financial derivative to intensify competition and assume function for the extended reproduction of capital as a social relation? This necessitates the summary of their debate on the individual circuit of capital and the critical role of derivatives.

Bryan and Rafferty (2006: 162-176) point out the different forms of capital and suggests that capital can be understood as stock of means of production, stock of wealth, individual capital and finally social capital. If the circuit of capital is looked at (M – C… P… C' – M') it will be noticed that there are negotiated settlements. In these settlements, the money is first converted into commodities, then a new commodity is produced through labour process and last but not least, the new commodity is converted into money which can be re-invested for further accumulation. Bryan and Rafferty (2006) claim that the stock of means of production, i.e. commodity capital, together with the stock of wealth (money-capital), are reintroduced to the circuit of capital by the use of derivatives. That is to say, since the corporation needs to verify the market value of the components of capital circuit, there is the need for a mechanism which will measure these pieces. The value of M and C is known by the market actors thanks to binding and blending functions performed by derivatives. According to this perspective on derivatives, "corporations can now benchmark the returns of their operations in different countries and in different activities, financed with different amounts and compositions of capital, and with revenue streams in different currencies" (Bryan and Rafferty, 2006: 53). Derivatives help capitalism cope with the problem of introducing time and space in estimating as well as determining the future value of commodity and financial asset, they "provide a means for the value of Ms and Cs… to be compared wherever they are in the circuit, wherever they are in space and wherever they are in time" (Bryan and Rafferty, 2006: 173).[34]

[34] Bryan and Rafferty (2006) go so far as to claim that derivatives perform the critical role of binding the future to the present in such an efficient manner that functions of the state in terms of money

Not all would agree with this functionalist interpretation. On the level of risk management the OTD model and financial derivatives, as seen in the formation of 2007-2009 crisis, helped concentration of risk rather than intensifying competition and enabling corporations to measure different assets:

> Derivatives… are considered technical phenomena to be analysed in functional terms. The question then is: do derivatives work? The answer is starkly apparent. Instead of perfecting markets and distributing risk to those most willing and able to bear it (Greenspan 2004), derivatives have concentrated risk amongst a few large institutions and fed a collective risk appetite that bore little relation to the 'real' economy. When returns on traditional 'primitives', such as government bonds, fell the intrinsic leverage in derivatives and a permissive, privatised regulatory environment allowed market participants to 'move up the yield curve' in the myopic belief that innovation in the era of Non-Inflationary Constant Expansion (NICE) transcended the business cycle. Worse still, the abstract nature of the securities and thick layering of contracts meant nobody knew who held the risk (Wigan, 2010: 110).

Bryan and Rafferty can be criticized in their overemphasis on the functions of derivatives. Derivatives may provide the estimates on future prices of the components of capital, but is it proof of performing a blending function (see Mügge, 2009)? Derivatives may express precise calculations, yet they may be inaccurate representations of reality at the same time (LiPuma and Lee, 2004). "Securitization allows the issuers of derivatives to realize future profits today" and "derivatives dramatically expand the possibilities to trade present-day assets against (potential, in the case of options) future liabilities" (Mügge, 2009: 517). The simple point to be made is that derivatives can be used for capturing parts of the surplus value to be produced and they can perform critical functions for capital accumulation, but this is not enough to label them as ever effective means for measuring "values" of different assets.

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stability are being taken over by the derivatives. The vacuum after the states withdraw from the function of fixing the present to the future seems to be being filled by derivatives (see also their 2007 study).

3. 4. Accumulation: Financialised or Differential?

Such a characterization of capitalism with reference to its late 20th and early 21st centuries regalia points out the changing character of capital as a social relation. Recent emphasis of Martin et al (2008) and Bryan et al. (2009) on the use of derivatives for disciplining labour and subjection of labour power to market competition through new mechanisms of indebtedness and financial innovation can also be seen as an extension of their functionalist perspective, over-emphasising the critical role of derivatives. Financialisation, from their point of view, can be explained as a makeover of capital which brings about the need to understand social surplus more as an organizational capacity than an immense accumulation of commodities as such (cf. Nitzan and Bichler, 2009).

Can we talk about a new type of accumulation then? Is it possible to delineate a new regime of accumulation in which the surplus value is accumulated *via* the competitive framework introduced by the new form of ownership of the means of production and the institutionalisation of a system of derivatives? Despite the striking features of derivatives, it seems hard to give an account of the accumulation process through a focus on the combination of derivatives and securities. Consider the case of "a synthetic CDO [collateralized debt obligation] written on CDS [credit default swap], written on a cashflow CDO, written on a RMBS [residential mortgage backed security], written on a mortgage" (Wigan, 2010: 119). In this case the mortgage payment is securitized and used as a piece of debt package, which forms the underlier of credit derivative that is tailored further in line with the demand of investor to form the synthetic CDO. Thanks to this artificial liquidity (see Nesvetailova, 2008) the exposure to risk can be traded in easy terms, but is it possible to point out a new type of accumulation process (in the sense of binding the present to future)?

Many would agree with the formation of a novel process of accumulation if it was defined in the words of *Régulation* theory as a regime of accumulation. Pineault (2008) for example, claims that the financialised accumulation symbolizes the dominance of speculative finance capital. Nevertheless, the fact that wage-labour nexus left its place to a new nexus in institutional hierarchy does not amount to the formation of a new system. Rather "the embeddedness of financial capital" implies that the critical moments in industrial circulation and the wage-labour relation is determined through processes in which the finance plays a great part. This results in the formation of an unstable and incoherent system in which the financial circulation is more important than ever. Financialised accumulation should not be taken as a new type of accumulation referring to capital accumulation in advanced capitalist countries. It should not be conceived as an ideal-typical term either. It merely refers to the growing importance of the role played by finance and the subjection of labour by the help of financial innovations which also provide lucrative profits to fund owners.

Even though he does not agree with a functionalist perspective on derivatives (see Wigan, 2010; cf. Bryan and Rafferty, 2006), Wigan's (2009) notion of financialised accumulation is based on the presumption that derivatives attempt to transform risk into tradable assets and financialisation cannot be grasped in a linear relationship to the real wealth accumulation. Financialised accumulation does not mean the distortion of an underlying real economy but rather as seen in the assurance of the system of derivatives "the construction of an alternative arena of accumulation in which the object is risk" (Wigan, 2009: 163). The new degree of ownership takes one step further the "absentee ownership" of Veblen and derivatives can be seen as a means to create "indifference" to exigencies of competition. Since the "value" of a financial derivative is determined by the movements in the "value" of underlying financial asset, the investor remains indifferent to the asset but the volatility of the price. According to Wigan (2009: 168) "in isolating risk as an object of ownership, financial mediation proceeds on the basis of a capacity to construct an almost infinite series of moments of indifference to the vagaries of competitive outcomes in the real economy". This leads to further complexity and generate new contradictions.

Palan (2000: 220) claims that the Lacanian version of constructivism resolves the tension between materialism and idealism by "asserting the structural impossibility of reaching the 'real' (the material in materialist discourse) because of the subjects' subordination to language". This claim can be extended to the political economic inquiry from a constructivist perspective. In other words, what Palan emphasizes is the need for rejection of the assumption of a "real" that stands pure against imaginary or aside the way people give meaning to their transactions. For Nitzan and Bichler (2009), accordingly, the (real) accumulation of capital can never be understood in other ways than the capitalisation of future earnings and the future purposes.[35] In their understanding, capital, in quantitative terms, is pecuniary capitalization of earning capacity. Put in qualitative terms, it is a mode of power. Although the content of power of each capitalist is unique, "its *form* can be quantified in universal monetary units; that is, as claims on the entire process of social restructuring" (Nitzan and Bichler, 2009: 312). They claim that the differential power of a particular capitalist group can be measured in static terms by looking at differential capitalization, i.e. the ratio of their market capitalization to an average capital unit. The change in the power of capitalists can be measured by calculating the rate of change of their differential capitalization. This relative notion of accumulation implies that the leading capitalist groups which have positive rate of change of their differential capitalization will form the dominant capital within a particular society.

In order for differential accumulation to take place, the capitalization of future earnings should be tied to rules and regulated. It necessitates a kind of institutionalization as much as the spread of the ideology of discounting and the use of "strategic sabotage". Therefore, it was only in mid-twentieth century "that differential accumulation became the compass of modern capitalism" (Nitzan and Bichler, 2009: 386). The important point in Nitzan and Bichler's study is that they keep the concern of classical institutionalists on the mechanisms of binding present to the future by the use of the concept of capitalization[36] and their critique provides a

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[35] This is the gist of their argument against the use of the concept of *fictitious capital* and the portrayal of fictitious capital accumulation as a distortion of real economy.

[36] It is the insights of Nitzan and Bichler (2009) on the power of capitalisation, which can be operational for a critical discussion of financialisation. Notwithstanding their severe critique of the use of Marxian concepts such as labour value and fictitious capital, Nitzan and Bichler's (2009) reference to the dynamic nature of capitalism reminisces those of the critical political economists. Accordingly, the individual capitalist approaches the constant capital by calculating the earning capacity. Pecuniary earnings and the valuable papers symbolise the power of the capitalist, in other words the ability to give shape to the processes of social restructuring. The form of power, explained by Nitzan and Bichler (2009) is not static and cannot be analysed separately from the future income streams, or financial operations which hedge the risk in order to secure future earnings within the productive sphere. Nitzan and Bichler's (2009) objection to the use of fictitious capital and categories

pillar upon which one can question the alleged qualitative turn after the collapse of BW.

Derivatives and financial innovations may lead to slogans as "We live in *Financial Times*!". It seems, however; equally legitimate to propose that capitalism, from its inception onwards, is based on the organization of time and space through financial mechanisms. One of the excruciating gifts of capitalism is the extension of capitalization to not only far-flung corners of world but also subjecting the organization of everyday life to monetary authority, capital accumulation and thereby to the logic of capitalization.

The term financialised accumulation is preferred in this dissertation in order to refer to the extension of capitalization and growing importance of financial sector in determining the course of accumulation. New forms of fictitious capital formation, growing importance of speculation on fictitious capital and financial derivatives and the growing ratio of financial assets to economic output can be taken as the main symptoms. Financialisation of accumulation, in general terms, should not be seen as a complete rupture, though an alternative arena for accumulation of money capital, apparently distinct from productive activities, is formed within the process. Financial innovations also help capitalists in their quest for disciplining and subjecting labour. The use of financial transactions for receiving lucrative profits and overcoming the problems regarding the realisation of profit or the falling rates of profit can be seen among the major features of financialisation of accumulation.

To remind Hilferding, his crucial insight was that financial sector grows out of the needs and organisation of the industrial sector. Critical political economy perspective is in congruence with an argument which suggests that finance serves for the expanded reproduction of capital. At the same time, the contradictory nature of capital as a social relation finds its reflection within the financial sphere and it appears that the financial operations strangle productive investment. To use the terminology of form analysis, which was used by Marx, the forms taken by social relations of production determine the organisation and transformation of the social

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of Marxian political economy gains power as long as the researchers poise the financial sphere in contradistinction to the production.

relations of production from which they arise. Financialisation, in that sense, is not the distortion of purely productive economy but an offshoot of a further development of capitalist finance which in turn leads to staggering rates of growth and further volatility within the system. Capitalist finance binds the present to the future, measures different assets and poses serious threats to the reproduction of the social relations of production at the same time, by giving way to permanent crises, severe inequalities and so on.

3. 5. Conclusion

Critical studies which rely on data of stagnating economy and changes in the real sector to explain financialisation and the "ascendancy of finance capital" posit a contrast between golden age of capitalism and the stagnating economy of the last quarter of twentieth century. This transformation is understood by many as the subordination of real sector to finance, in other words as the prevalence of financial capital over industrial capital. Indeed, the questions of those who pointed out the need for a discussion of real sector in an interdependent relation to financial capital had already been posed by classical scholars such as Hilferding.[37]

Though his arguments were not well formulated, Hilferding, by following Marx, provided a discussion of the mobilization of capital through financial means and the importance of capitalization in the accumulation process. A critical reading of the discussion of classical works on fictitious capital provides a path to suggest that what has been dubbed as financialisation is a contradictory process in which the financial innovations extend the logic of capitalization even to uncertainties about future income streams. Financialisation can be grasped as a process in which this extension is used for accumulating handsome profits and mobilizing capital at the same time. Boosting financial sector and proliferation of financial transactions, used for the mobilisation of capital are functional for capital accumulation. Fictitious

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[37] This is by no means suggesting that Hilferding's analysis can be used without any revisions to point out the intriguing features of today's financialised accumulation. As it is mentioned in the sections above "finance capital" is the fusion of industrial capital and banking (financial) capital in Hilferding's study and Hilferding raises the question of the relation between finance and industry with an emphasis on the "mobilisation of capital" *via* fictitious capital formation.

capital accumulation and financial derivatives are used by business groups also for deferral of problems emanating from the sphere of production.

In this chapter, I have pointed out that the classical debate on finance capital provides crucial insights for an analysis of contemporary global economy. Looking at the exemplary studies of contemporary finance, I have claimed that the financial derivatives and new forms of fictitious capital provide lucrative profits for money holders. These financial instruments, however, increase financial stability at the same time. The proliferation of new forms of fictitious capital and derivatives are located within the formation of a new *creorder* by Nitzan and Bichler (2009) and portrayed by Wigan (2009), as the formation of an alternative sphere which provide an indifference to exigencies of competition. An alternative arena for accumulation of money capital is formed within the process of financialisation. Financialisation of accumulation, however, refers rather to the growing importance of financial transactions within the process of capital accumulation.

Bringing back the classical discussion on fictitious capital formation into the literature on financialisation serves mainly two purposes: First one is that the discussion on fictitious capital helps characterising financialisation as the expression of inherent contradictions within capitalism. As Burkett (1987: 9) mentioned "the development of class relations in the process of capital accumulation increases the profits that can be appropriated through the mobilization and allocation of funds". The discussion on fictitious capital indicate that the growing importance of "interest-paying financial transactions" (McNally, 2009) within the relations between capitals and capital and wage labour is a reflection of the development of class relations within capital accumulation process. Development of credit relations bring about the increase of profits from financial intermediation and financial transactions. Financialisation of accumulation, from such a critical point of view, is the manifestation of a tendency inherent in capitalist mode of production.

Second point regards the important link between the financialisation of advanced capitalist economies and "emerging markets". The growing importance of fictitious capital, i.e. the claims on not only the future streams of income of households but also future revenues of the state and corporations, within the capital accumulation in “emerging markets” imply a huge political and economic transformation in the last quarter of the 20th century and the first decade of the 21st century. This process of transformation paved the ground for increasing financial investment of NFCs and increased liabilities to international financial markets. While the liquidity expansion in the advanced capitalist world boosted capital flows to “emerging markets”, the transformation *within* these countries provided opportunities to both domestic and foreign business groups.

I have underlined in this chapter that the financialisation is functional for capital accumulation but also creates new contradictions as it boosts the instability and uncertainty. Capitalisation of certain flows of income and devising new mechanisms for risk management should not be poised in contradistinction to the productive activities. Financialisation is functional as it would also bring about the increased use of financial mechanisms in extracting part of the income of the members of working class. Innovations and further accumulation of money-capital, however contribute to the inherent volatility of finance at the same time. The contradictions of financialised accumulation are being contained by further state intervention and policies for the legitimation of the state-finance nexus. From a critical and state-centric point of view, the present is bound to the future not by the use of derivatives as such but by the restructuring of the state. Capitalist state, on an abstract level, is crucial for shaping the anticipation of future by the masses. On a concrete basis and in our concern, the commitment of the state to roll over debt and the isolation of economic management in general and debt policy in particular from the political interference are critical for such hegemonic operation. These will be discussed in the next chapter.

CHAPTER IV

ON STATE DEBATE
AND REFORMULATION OF STATE-FINANCE NEXUS

4. 1. Introduction

The deregulated or re-regulated international financial markets, the anticipation of the legal-political changes and reforms for the restructuring of the state occupy a noteworthy place in the political agenda within the countries of the advanced capitalist West as well as the countries of Global South. Financialisation seems to have a growing impact on nation-states when the formulation of neoliberal economic policies in the aftermath of the collapse of BW is considered. State intervention was critical for the consolidation of neoliberalism and the sustainment of financialisation (Fine, 2010). As a keen observer of the financialisation of the global economy suggests:

> [T]he state has been pivotal to the rise of financialisation. For one thing, the state has pursued financial deregulation. For another, the state is the power behind the central bank both through supplying it with bonds and through declaring central bank liabilities to be legal tender. Without the state's backing, central banks would have been much less effective during the crises of financialisation. More broadly, the state has emerged as the ultimate guarantor of the solvency of large banks and of the stability of the financial system as a whole (Lapavitsas, 2009a: 145).

To this should be added the aim of financial deepening on the side of policy makers and state managers in middle-income countries with relatively shallow financial markets. Unfortunately, the discussion on restructuring of the nation-states through financialisation has been constrained to the debate on globalisation and fruitless contention of whether the nation states lost power against markets or not. Critics of such a contention have mentioned the importance of the role of the state and the desirability of accounts which perceive the nation states as active agents in globalisation. Such an approach, according to Marxians, should also distance itself from an institutionalist critique in that the relations between the state and market should not be conceived as the relations between externally related spheres.

The Marxist state debate in the 1970s and its ramifications provided an abstract theoretical critique of what would become the dominating perspective in the 1990s. With their explicit emphasis on the separation of the economic and the political in capitalism, contributors tried to employ a Marxian understanding for explaining the implications upon the state of the recent changes which would later be labelled also as the symptoms of financialisation. Through a discussion of the “form analysis” followers of the debate tried to form a theoretical toolbox in order to understand the specific forms of capital relation and its internal relation to the political institutional forms.

Two particular and intertwined approaches, contributors of whom were directly or indirectly influenced by the offshoots of the mentioned state debate, dwelled on the issue of the growing importance of financial markets and the related restructuring of the state. These can be labelled as internationalisation and depoliticisation approaches. “Internationalization of the state” (Cox, 1987) argument provided a stream in which neo-Gramscian accounts could inquire into the transnational hegemonic formation in its relation to the nation-state and regional level reforms. Robert Cox and his followers underlined the global consensus formation and the tendency that can be characterised by increasing subordination of nation states to the international pressures (accompanied by support from national groups). The problem with such a perspective is that, the adherence to market discipline by nation states should not be identified with the formation of a consensus on regulation of finance and its governance. This point becomes a more prominent feature when the discussion on the “depoliticisation of economic management” is taken into consideration. Peter Burnham (1999) defined depoliticisation as a strategy for management of money and labour and a strategy relying on the presentation of economic management as a technical issue. It can be argued that, the arms’ length control of the state managers on monetary policy and labour relations, which were mentioned by Burnham with reference to the national level, could not be extended to the regulation of financial sector on an international level. The legislation of binding rules for provision of stability is a widespread phenomenon, nevertheless, as

Burnham (2001: 145) suggests nation state is invited to act on behalf of the "illusory communal interest" in times of crisis. Such an invitation cannot be posted on an international level yet. The calls for a new international financial architecture (NIFA) and new authorities have not met with great support in financial circles. In a striking way, the lack of a political authority at the international level can be used effectively to legitimize the demands of market actors on a national level and present the market itself as a fetishised sphere beyond control.

This chapter of the study, firstly, reviews the state debate and the mentioned literatures on the "internationalisation of the state" and the "depoliticisation of economic management" in order to derive insights for a discussion of the forms of state intervention through financialisation. Then, the contours of a critical approach to the state will be discussed in the third section. The conceptualisation of state-business relations from a strategic-relational point of view will be discussed in light of the dominant trends in the restructuring of the state. Concluding part will shed light on the insights to be gained from the Marxist state debate for the period of financialisation.

4. 2. State Debate and Ramifications

The return of the state into the social science discourse is attributed to the statist and institutionalist works in the 1970s and 1980s. Marxian debate on the role and functions of the state, indeed preceded the attempt to "bring the state back in" despite the claim of many institutionalists on society-centred character of Marxism. Such a critique rested on the institutionalist elaboration of Marxian principle that capitalist state could not be understood as an entity with its own logic and organization. The role played by the state, from a Marxian perspective, should be linked to the struggle between classes and the requirements of the contradictory relations of production. For many statists or new institutionalists, such a notion was identical with the fallacy of reducing the state to an epiphenomenon (see Mann, 1993).

Despite the fact that the debate between Ralph Miliband and Nicos Poulantzas echoed Lenin-Luxemburg debate of the early twentieth century (Aronowitz and

Bratsis, 2002), neither the instrumentalist notion of the state, nor the structuralist-functionalist understanding aimed to treat capitalist state as an epiphenomenon.[38] While the question "who rules" carried significant importance for the first, in order to indicate the necessity for advancement of democracy, the state "as a factor of cohesion" was the focus in the latter, to explain the reproduction of the social relations of production. Empirical research for documenting the interpersonal relations among state elite and managers and the role of ideology for the unity of subsystems within the state were emphasized in an instrumentalist conception. On the contrary, the structuralist stance emphasised the function of the state in avoiding dissonance between different levels of social formation (Barrow, 1993).

Relative autonomy of the state, understood in structuralist terms, is the basic condition for organisation of hegemony.[39] However as the critiques suggest, the assumption of the state charged with the protection of a class-based social formation implies "a state within the state, the former both being the source of the class struggle as well as its ultimate arbitrator" (Bartelson, 2001: 145). Such an approach falls short of providing an explanation of the apparent diversity in the apparatuses of the state and its relatively coherent policy output. For Bartelson (2001) this is the residue of the Marxian debate of the 1970s which also paved the ground for attempt to "bring the state back in" to the social science discourse.

The debate on the logical and historical derivation of the state which originally came forth in Germany in the 1970s on the one hand, "the rediscovery of Gramsci" with academic and political concerns at the same time period on the other, contributed through different channels to the Marxist state debate. This debate, however, was further marginalized in the 1990s. For state derivationists, the major themes to be

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[38] Poulantzas (1976) rejected such labels in his last contribution to the debate.

[39] "[R]elative autonomy is inscribed in the very structure of the capitalist state by the relative "separation" of the political and the economic that is specific to capitalism; it is in no way a function of the state or "political instance" as such, but rather derives from the separation and dispossession of the direct producers from ownership of the means of production that characterizes capitalism. In this respect, this relative autonomy is simply the necessary condition for the role of the capitalist state in class representation and in the political organization of hegemony." (Poulantzas 1975: 98, cf. Poulantzas, 2000 [1978]: 132)

elaborated on were the apparent separation of the economic and political as well as the existence of state as a form assumed by social relations of production. State derivation debate revitalised a critical line of thinking in Marxian thought. Holloway and Picciotto (1978: 18) claimed that this stance departed from analyses which naturalize the appearance of economic and political spheres as externally related and focused on the question "what is it about social relations in bourgeois society that makes them appear in separate forms as economic relations and political relations?".

The state debate in *Conference of Socialist Economists* (CSE) was based on the insights of state derivation. It emphasized the primacy of class struggle as against the focus on political structure and interpersonal relations between state elites. It was a recurrent theme within the debate that the state and market should be conceived as different forms[40] of the social relations of production rather than externally related spheres (Bonefeld, 2008).

Jessop (2010) noted that the "fetishized separation of the economic and political moments of the capital relation" was the major tenet in the CSE debate. Whereas the mainstream discussion on the globalisation and the nation state tended towards positing a decline in the role and importance of nation state because of the increased integration of markets and the alleged decline of the state intervention, the alternative approach questioning the separation between the economic and the political pointed out the indispensable role of the state in the process of capital

[40] Jessop hits the nail on the head when implying that reference to determinations other than the movement of value had to be integrated to avoid ambiguity inherent in form analysis on the one hand and in order not to fall into the trap of functionalism on the other: "In short the derivation of content involves moving beyond the field of determinations that establish form and, *a fortiori*, so does an account of the dialectic between form and content. For, just as the appropriate form of the state must be established and reproduced through specific practices, specific practices are also involved in its functioning and these may not coincide with those required for the reproduction of form. There is a major ambiguity here in form analysis. Sometimes the aim is to establish the appropriate form and/or functions of the capitalist state to show the theoretical possibility of the CMP [capitalist mode of production] (given that the movement of value alone cannot ensure its reproduction) and then to invoke them as an abstract principle of explanation of such reproduction (on the assumption that the state is a *trager* of the capital relation); sometimes the appropriate form and /or functions of the state act as a point of reference for problematising and evaluating the effectiveness of constitutive and/or functionally-oriented practices in securing bourgeois reproduction. However, while the 'capital logic' approach resolves this ambiguity by transforming the assumption that the state is a *trager* into an essentialist principle of explanation so that logical correspondence is conflated with causal necessity, the more sophisticated versions of form analysis distinguish between logical correspondence and causal necessity and resort to further determinations to account for the realisation of state forms and functions." (Jessop, 1982: 135-136)

accumulation. Nevertheless, the alternative route had its own tensions: While the line of thought subsequently to be labelled by many as critical or "Open" Marxism[41] based on the rejection of Poulantzasian structuralism with the help of a radical non-functionalist interpretation of derivation debate, emphasized the primacy of class struggle; the "reformulation of state theory" *via* Poulantzas, derivationists and a state-theoretical interpretation of *Régulation* School[42] underlined the importance of political institutional modes as determinate forms assumed by class struggle. Put in polar terms, the former insisted on "the priority of a generalized class struggle to overthrow all forms and moments of the capital relation" while the latter paid attention to "the impact of historically specific forms of the capital relation and their distinctive institutional supports on economic and political struggles in specific periods" (Jessop, 2010: 39). Neo-Gramscian contributions can be seen as offshoot of this effort to highlight the importance of ideas and institutions as historical specific forms.

Robert Cox (1981, 1987) and Stephen Gill's (Gill and Law, 1989) contributions questioned the hegemonic configurations in an increasingly globalised economy. The transplantation of the concept of hegemony in international relations paved the ground for a literature revolving around issues such as transnational class formation and transnational hegemonic projects (see Bieler and Morton, 2006, van der Pijl, 1984). The importance attached to the ideas and images however were criticised by the remaining critical followers of the state derivation debate. According to Burnham (1991: 81) "the restructuring of accumulation occurs in a context of inter-imperialist rivalry in which nation states seek temporarily to overcome the contradictions of the capital relation, which are manifest in uneven development. A

[41] Open Marxism elaborated on the dependence of capital to labour by employing Marxian categories: "Capital cannot autonomise itself from labour and, yet, capital exists as an automatic subject with seemingly self-valorising potentials. The crisis-ridden autonomisation of capital from its substance is a mode of existence of capital. The potential for autonomisation presents itself in the circuit of money capital: M… M'. In this circuit 'capital' manifests itself in the most elementary form: labour as the substance of value manifests itself only in money. It is in and through money that the particular individual concrete labour asserts itself as social, abstract labour" (Bonefeld, 1995:198).

[42] The propensity of *Régulation* School to highlight institutional forms as responses to the crises of accumulation can be criticised severely. As Clarke claims (2001: 77) "The crisis is then seen only as a crisis of particular 'mode of regulation' of capital accumulation, which can be resolved by developing new forms of regulation, rather than being seen as a crisis which expresses the contradictory form of accumulation itself."

neo-Gramscian approach submerges this focus on the contradictions of the capital relation and leads to the assertion that ideas are to be accorded equal weight to 'material capabilities'".

This brief summary of the Marxian state debate from 1970s to the 2000s indicate that there is no consensus let alone hegemony of a particular perspective in radical state theory on the explanation of state intervention and the nature of capitalist state. The major theme around which the Marxist state debate revolves continues to be the apparent separation of the economic and the political. Another issue to be noted is that the theory building attempts may not be helpful in portraying the complexities of state intervention if these do not concern with the daily functioning of the state branches and analysis of the concrete state of affairs.

4. 2. 1. Internationalisation of the State

The problem within many contributions to the state derivation debate resides in the assumption that the "particularisation of state" in bourgeois society (Altvater, 1978) is considered as something that occurred after the consolidation of capitalist social relations of production. Historically speaking, capitalist mode of production did not precede the formation of capitalist state. The emergence of capitalist state as a form "alongside and outside bourgeois society" took place in different periods in different regions. What can be claimed is that in order for capitalist mode of production to take place and become dominant, the existence of territorial authorities as competitively linked integral units of a whole was important (see von Baunmühl, 1978: 168)

Murray (1971), the forerunner of internationalisation argument, suggested that as the internationalisation of capital was not accompanied by the formation of a global state or authority, there was a non-coincidence between the internationalised character of production and the nation-based political authority. As mentioned above, this formed a major line of discussion in CSE debate and scholars such as Bonefeld (2008) dwelled on the emphasis of von Braunmühl on presupposition of world market to claim that the subsistence of world market in and through the nation-states leaves such an issue of territorial non-coincidence out of the question (see also Clarke, 2001: 79-80).

Internationalisation of capitalist production and its impact upon the restructuring of the state had been also handled by Poulantzas in the 1970s. By emphasizing the relative autonomy of the state, Poulantzas maintained that the critical function performed by the state has not been supplanted by an emergent supranational state. The functions of the state are too complex to pose a separation between ideological-repressive and economic ones, in order to claim the transfer of the latter to the institutions of international capital (Poulantzas, 1975: 81). In other words the economic functions of the state are articulated with the ideological and repressive ones in such a way that the changes in the organization of production should by and large be realized through the nation state, which is by its nature charged with the provision of unity in a class based social formation. Therefore, Poulantzas (1975: 78, see also Panitch, 1994) rejected a mechanistic understanding based on an emphasis of contradiction between internationalized structure or base and national superstructure. In its stead the focus in his critique revolved around the notion of the internalization by the nation state of the transformations within the global accumulation. From such a point of view internationalization of the state is not the formation of an international authority but the process in which nation state assumes the transformations pressed by internationalization of capital. Because of the disarticulation of fractions of capital and arising contradictions, it should not be understood as a process secured and followed in a regular manner.

Cox, on the other hand, identified the internationalisation with the formation of the hegemonic world order in which "production in particular countries becomes connected through the mechanisms of a world economy and linked into world systems of production" (Cox, 1987: 7). The internationalising of production was accompanied by the internationalising of the state.[43] The pressures of global

[43] For a critical discussion of the concepts of Cox, see Bedirhanoğlu (2008).

accumulation were transmitted to the national sphere *via* nation state,[44] which was constantly reorganized and became in due course more sensible and even subject to the policies organized on an international level, and more generally the *nebuleuse*, i.e. the decisive consensus of the global forces of capitalism. According to Cox, "… nation state becomes part of a larger and more complex political structure that is the counterpart to international production" (Cox, 1987: 253).

> The meaning given to the term *internationalizing of the state* can be expressed in three points: *First*, there is a process of interstate consensus formation regarding the needs or requirements of the world economy that takes place within a common ideological framework (i.e., common criteria of interpretation of economic events and common goals anchored in the idea of an open world economy). *Second*, participation in this consensus formation is hierarchically structured. *Third*, the internal structures of states are adjusted so that each can best transform the global consensus into national policy and practice, taking account of the specific kinds of obstacles likely to arise in countries occupying the different hierarchically arranged positions in the world economy. State structure here means both the machinery of government administration and enforcement (where power lies among the policy-elaborating and enforcement agencies of states) and the historic bloc on which the state rests (the alignment of dominant and acquiescent social groups) (Cox, 1987: 254).

The main problem with Cox's early attempt to depict internationalisation of the state was the decline in the material capabilities of the US evident in its transformation to be the biggest borrower in world history. Cox presumed the existence of an interstate consensus in the institutions of global finance to explain internationalisation against the background of a decline in the power of hegemonic state. The importance, in his works, of ideas and institutions for the global management of capitalism, however, portrayed the process as hierarchically imposed from outside-in. Panitch (1994), by resorting to Poulantzas' understanding of the functions of the state and critique of a mechanistic perspective, claimed that the internationalisation of the state is to be better conceived as *within* and *through* the states.

[44] Cox withdrew in his later studies the metaphor of nation state acting as a "transmission belt" and explicitly stated that the transformation he described cannot be portrayed as one generated externally and imposed from outside in (see Cox, 2002).

Despite the problems in the use of the concept and critiques, internationalisation has been a key term for explaining the dependence to international financial markets and the restructuring of the nation states. In Hirsch's (2003) more general understanding the three major developments, *denationalisation*, i.e. the facilitation of capital accumulation by the state, for international investors and the shift of state power away from national level, together with *destatification*, i.e. the state becoming a negotiator and relying on mechanisms of governance, and *internationalisation of political regulatory systems*, i.e., the creation of informal regimes and the development of negotiation state at the international level, all lead to the internationalisation of the state.[45] Jessop (2007: 193-201) uses a similar terminology in discussing the recent trends. Accordingly, we witness the territorial dispersion of state's functions and the creation of parastatal, non-governmental or privatised bodies which take place alongside the nation-state in regulation and policy implementation. As the economic and social policies are more concerned with the competitiveness of the economy, extraterritorial and transnational factors as well as the international institutions and actors become parts of the policy processes; hence the terminology of the "internationalisation of the policy regimes".

It is of utmost importance that the nation-states should not be portrayed as the receivers in the relationship between the fund owners and the state in quest of competitiveness. Although, Hirsch underlines the decline of the capacity of the nation state to control the economy, at the same time he points out the critical role played by nation state in the internationalisation of production. Hirsch (2003) also attempts to link the process of internationalisation of the state with the growing isolation of some state institutions from people's control. Accordingly, the changing hierarchy within the state as well as the strategic orientation of the national competition state highlights that the institutions removed from popular pressures are on the forefront and democratic control of key measures is not on the agenda. This

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[45] According to Hirsch, the internationalisation "finds expression in the growing importance of international organizations, regimes, and other forms of international cooperation and in the development of increasingly complex links between regional, national, and supranational levels. A main characteristic of this process is the internationalization of the state apparatus itself." (Hirsch, 2003: 245).

theme is particularly important for grasping the internationalisation of the state as a process of *depoliticisation* at the same time.

Internationalisation, on the other hand, if defined with particular propensities on theoretical level may not be helpful in understanding the complexities of a particular social formation. This point has been discussed by sympathetic critiques of internationalisation debate. Baker (1999), for example, suggested that the formation of a global consensus of monetarism does not help explaining the initial shift away from Keynesianism in the case of U.K. The public opinion had started to change in combination with the market pressures before the involvement of the IMF and the following Thatcherite transformation. The relations between nation state agencies and the internationalisation of production or globalisation are not like a one-way street. For example, Her Majesty's Treasury through the institutionalisation of the principle of free market served for strengthening the neoliberal transformation and the process of internationalisation or transnationalisation. Drahokoupil (2009) in his revisit of internationalisation debate maintained that despite the theoretical commitment of neo-Gramscian scholars to the analysis of social forces for explanation of internationalisation, their main emphasis shifts to the global determination and the transnational projects. The Czech case indicates, however, internationalisation was an uneven process and can be explained in relation to the struggle of the national actors with rival projects. Only after the attempt to stimulate national capital resulted in a crisis in the 1990s, the internationalisation in the form of growing importance of foreign direct investment (FDI) came to the fore.

These critiques remind the importance of need for a rigorous shift between different levels of analysis. A non-functionalist interpretation of the reconfiguration of the relations between nation states and IFIs as well as the restructuring of the states necessitates a critical view of the social struggles. This interpretation should also include a perspective on the lack of democratic control regarding the key policy measures, together with a discussion on the strategy of depoliticisation that prompts the separation of the economic and the political on a much more mundane level.

4. 2. 2. Depoliticisation of Economic Management

Depoliticisation of economic management has become a widely referred issue of discussion in the neoliberal era. Despite the popular use of the term, it is hard to elaborate the meaning of it for two reasons: First depoliticisation is indeed a misnomer, since what is being discussed is not only directly related to the changing form of intervention into the economy but also the alleged depoliticised field remains to be an annex of the political struggle as well. Second reason is that there is surprisingly little attempt to define the meaning of depoliticisation[46] in order to make it operational for an analysis of neoliberal transformation discourse.

Depoliticisation is presented as an organic feature of the capitalist state by some critical scholars. It is understood as the function of the class-based state which relies on the disempowerment of masses. “One of the principal tasks of the capitalist state", David Harvey[47] claimed, "is to locate power in the spaces which the bourgeoisie controls, and disempower those spaces which the oppositional movements have the greatest potential to command.” (cited in Panitch, 1994: 88). From a structuralist point of view, Poulantzas (1973) emphasized long ago the “isolation effect” produced by the capitalist state. The peculiarity of the capitalist state was that it considered its subjects as the individuals isolated from their original class positions and the prevailing inequality at the level of social life. Although there

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[46] The issue of depoliticisation of economic management becomes more complicated if the use of the term depoliticisation in a much more general sense is considered. Rather than taking depoliticisation as a strategy or a recent change, philosophers such as Ranciere (1995) present it as an inevitable aspect of politics. Ancient philosophical thinking dwelled upon the exclusion of masses from taking place in processes intimately linked to taking decisions on the future of the *polis*. The rule of *demos* was not the first choice for many and the boundary of politics was already a matter of struggle.

[47] In his recent study, Harvey (2010: 204-205) maintains the distinction between two logics of power within the capitalist state, which are not reducible to each other. Territorial logic of power is defined as the military and political strategies used by the state in its own interest in order to accumulate wealth and power within the borders of the state. Capitalist logic of power, on the other hand points out the process of capital accumulation and the search for profitable fields of activity. In narrow sense of the term it is the flow of power over borders for the realization of the expanded reproduction of capital accumulation. These two logics are intertwined and the success of a state is measured by provision of conditions for the capital accumulation. This does not mean homogeneity in the strategies of state as proposed by theories of globalisation. Rather capital accumulation is enhanced by means of heterogeneity in and between regions. For Harvey, in a similar vein to the functionality of interstate system discussed by WST, the intertwined logics produce a variety of mechanisms for facilitating capital accumulation. It can be claimed that, one of the principal tasks of the state, is to disempower those spaces which can leverage the opposition against the functioning of these intertwined logics.

is no discussion of depoliticisation as such in Poulantzas, the function of the capitalist state is acknowledged as avoiding the issue of class inequality to turn into a matter of political discussion and struggle.

One of the leading scholars in the literature on depoliticisation employs a strategic perspective and uses the term in relation to the economic management and as a governing strategy. Burnham (1999) mentions that the international political economy literature lacks an adequate conceptualisation of the role of the state. The literature, accordingly, presumes a separation of the state from the market since these two spheres of social relations are fetishised and their internal relations are not conceived (Burnham, 1999). It is necessary to distinguish the strategy employed from the prevailing ideology of economic policy, for Burnham, and he highlights the distinction between politicised and depoliticised forms of economic management. Through an analysis of economic policy making in Britain, it is maintained that "switching from a politicised (discretion-based) system to a depoliticised (rules-based) approach enabled the government to 'externalise' the imposition of financial discipline on labour and capital" (Burnham, 1999: 45). As put aptly:

> It is important to be aware that the term 'depoliticisation'... should not be taken to mean the direct removal of politics from social and economic spheres or the simple withdrawal of political influence. Rather, depoliticisation is a governing strategy and in that sense remains highly political. In essence, depoliticisation as a governing strategy is the process of placing at one remove the political character of decision making. In many respects state managers retain arms-length control over crucial economic processes while benefiting from the distancing effect of depoliticisation. Furthermore, depoliticisation strategies invariably require the public rejigging of bureaucratic practices to achieve their primary aim, which is to change expectations regarding the effectiveness and credibility of policy making. In this sense, depoliticisation is not simply an ideology (unrelated to material practice), but is rather one of the most potent forms of ideological mobilisation reflecting changes in the form in which state policy making is carried out (capitalising thereby on the ideological effects of changed material practices) (Burnham, 1999: 47, see also 2001: 128-129).

For Burnham (1999: 47-50) depoliticisation, in terms of the management of labour and money, has been manifested itself in three forms in the 1990s Britain: First one is the reordering of tasks and reassignment of some to independent bodies so that the party in office could not be held responsible in the public eye for the rate of inflation or the industrial disputes in which the trade unions are further marginalised. Second form is the declared commitment to the principles such as accountability and external validation of the policy. This took the form of preparation of some Codes for the fiscal policy formation and public debt management. The rules-based fiscal policy portrayed any expenses which could not be legitimised with reference to market rationality as undermining macroeconomic stability. Finally, governments were willing to adopt binding rules in terms of monetary policy to promote a competitive environment in which the reduction of labour costs was of utmost importance on the one hand and it was aimed to relate the monetary discipline to the demands of IFIs or the global market actors on the other.[48]

Fairbrother (2006: 67-68) refers to variegation in terms of the management practices and restructuring of the public sector. In his "paradoxical depoliticisation" the direct government intervention is reduced but the discretionary practices persist. The depoliticisation declines the level of opacity surrounding managerial relations in state sector, however this should not mean the end of discretion. It is rather subordination to market measures (see also Carter, 2006).

It may be helpful to touch upon the complexity of the issue with reference to a painting by Pierre Roy. This well-known French painter and an acclaimed member of surrealism painted a portrait of his friend in 1949. Painting named *Boris Anrep in his Studio, 65 Boulevard Arago* is displayed with a caption describing the painting as portraiture at one remove. Roy painted a stone bust of his friend in his studio. By manipulating the perspective and depicting the studio as a field leaked out of sub-

[48] Buller and Flinders (2005) in their critique of Burnham suggest that politicised strategies were already unfavourable in the context of British politics. Those strategies were doomed to fail because of the structural obstacles such as the dependence on City as the financial centre and the divided nature of British capital. By referring to the post-war developments in Britain, Buller and Flinders (2005) shift the focus of attention to the domestic arena, in contrast to Burnham's emphasis on the growing importance of financial markets and the re-regulation of international financial sphere and the accompanying disciplinary management of labour by nation-states. It is the "gradual playing out of internal contradictions between discretionary policy instruments and the institutional context surrounding their operation" (Buller and Flinders, 2005: 540) which should be analysed. Depoliticisation can be defined accordingly as "the range of tools, mechanisms and institutions through which politicians can attempt to move to an indirect governing relationship and/or seek to persuade the demos that they can no longer be reasonably held responsible for a certain issue, policy field or specific decision" (Flinders and Buller, 2006: 295-296). It is not the decline of the "power" of the state, but the transformation of it.

conscious as much as a working place, he made the bust appear as more notable than it would be in an ordinary portrait. The painting is a portrait although it appears not as one at the same time. It invites the visitor to focus on the stone bust as if it was Boris Anrep himself: It is portraiture at one remove. In a similar vein, removal of particular issues away from political discussion and struggle can be conceived as the basic element of politics itself (see Ranciere, 1995) although the process of removal is capitalised by state managers and politicians. As a strategy, depoliticisation receives support from mainstream discourse portraying economy as a technical field. Calculation and management of risk are integral parts of this depiction. Depoliticisation as a governing strategy gained strength thanks to the strength of the technocratic view of economy and growing integration of financial markets and financial volatility.

4. 3. Thoughts on State Intervention through Financialisation

Despite the apparent separation of the economic and political in abstract terms, the state intervenes into the markets for the reproduction of capitalist social relations. Capitalist state secures property rights and acts as the guarantor of the formal freedom of market, the sphere in which the exchange of commodities with supposedly equal values for the sustainment of class inequality is secured. For Jessop (2007: 40) “the state can be defined as a relatively unified ensemble of socially embedded, socially regularized and strategically selective institutions, organizations, social forces and activities organized around (or at least involved in) making collectively binding decisions for an imagined political community.”

Through financialisation, the content of these binding decisions are shaped more and more according to the developments within financial markets. David Harvey (2010), for example, gives reference to “state-finance nexus” and claims that state is charged with taking the necessary measures to socialise the losses of financial sector in the neoliberal period. The tensions, however, between the global character of accumulation and the nation-based character of the state overcharges the capitalist state. The capitalist state itself is not contradiction-proof. While it internalizes the exigencies of capital accumulation, it must also at the same time provide a legitimate frame of reference to the policies adopted. The exigencies of global accumulation should not be understood as something separate from either the integration of the national economies into the world market or the promotion of the idea of the efficiency of the financial markets by state institutions and state actors. Reformulation of the state-finance nexus in accordance with the neoliberal dogma was first and foremost based on the belief in the efficiency of the markets and the disciplinary power of the finance. Within such a framework the state was expected to let markets work out the temporary problems that may arise in due course. The market failures were explained in relation to the impact of external political forces and used for further injection of neoliberalism. The intervention was only for the restoration of market, proven to be self-regulating from neoliberal point of view.

Deregulation or to put in more proper terms, reregulation for the sake of market control over the allocation of resources had dire consequences for the public finances of the capitalist state. Supported with the ethos of entrepreneurialism and the undue emphasis on market rationality, the state was expected to work *for* the market. This has led the way for two general developments in public finance: further downward pressure on the tax income and growing reliance on the international financial market for the financing of public expenditure and debt rollover. Since higher taxes would serve as impediments making further investment difficult and also existing corporations should not be left crawling under heavy tax burden, capitalist states were increasingly deprived of a massive source of income. The growing instability within the “privatised international monetary system” (D’arista, 2005) and the growing funds ready to be recycled pushed further the tendency to finance debt *via* bond issuance and borrowing from international financial markets alongside taxation and the use of income from economic enterprises of the state.

These general developments should not mean that the reformulation of the state-finance nexus was an even process. The long and painful process had also been experienced in different terms by each country. Depending on many factors from the deindustrialisation and destruction of manufacturing bases and the growing weight of services in the overall economy to the changing structure of banking sector (Dos Santos, 2009), states in the advanced capitalist countries were in a gradual but steady manner reconnected to the finance in such a manner so as to bail out the financial sector after instability and crises at all costs and legitimise these operations. On the other hand, many states in the so-called developing world had been subject to monetary and fiscal austerity under the rubric of structural adjustment. The state-finance nexus in the second group of countries had bound the states with an additional task of providing the conditions for formation and deepening of financial markets in addition to the socialisation of the losses of financial sector, when needed. It was of utmost importance to have a deepened financial market for the mobilisation of savings and providing opportunities for firms to borrow and engage in financial investment in suitable terms.

States in both advanced capitalist countries and those countries which would subsequently be labelled as the "emerging markets" were active agents in the process of financialisation. The state itself has been transformed through the reformulation of state-finance nexus. This restructuring, therefore has a double meaning: restructuring in line with the demands of financialised accumulation and restructuring as subjection to the contradictions arising from the reformulation of state-finance nexus.

States assume multiple functions for the expanded reproduction of capital as a social relation and the reproduction of the social relations of production in general. The particular functions, the state performs in and through the process of financialisation can be outlined as follows:

- A strong belief in the efficiency of the financial markets reached far-flung corners of the world amidst the increased frequency of financial crises in neoliberal era. While the states in the advanced capitalist countries were busy providing the legal-political framework in the face of growing importance of financial transactions, the states in the "emerging markets" were charged with the construction and deepening of the financial markets, a process which can also be named as internalisation of exigencies of capital accumulation.

- The mechanisms of financing public deficit underwent a significant transformation since the international financial markets became more and more important in the creditor-debtor relations. The public finance was gradually removed one step away from political decision making. Overcoming the problems of debt rollover depended on the creditworthiness of the nation-state, which was in turn based on the anticipation of the future income of the state and the ratio of the existing debt to the GDP. Under such monetary discipline the monetarist creed was internalised in the related state institutions such as Ministries of Finance, Central Banks and Treasuries.

- States not only serve for the deepening of financial markets and provide the necessary legal-political framework for the financial operations, they also assume the losses of financial sector during the crisis in order to avoid depression and revitalise the credit markets. This can be best observed in the conversion of the private debt to the public debt, as seen recently in the aftermath of 2007-2009 crisis of global capitalism.

I shall use the term *financialisation of the state* to refer the restructuring of the state in the neoliberal era for the fulfilment of the functions mentioned above. I do think that this restructuring is uneven as the process of financialisation itself. *Financialisation of the state* itself is subject to struggle and cannot be seen as a predetermined tendency. It should be seen rather as a tendency promoted by the financial elites, business groups and state managers.

The distinctive aspect of this restructuring is the formulation of public policy in accordance with developments in the financial markets and the subordination of branches of the state to the standards required by financial investors. As put by Saad-Filho (2009: 253-254):

> The financialisation of the state plays a significant role in the transition to neoliberalism and the stabilization of the neoliberal system of accumulation at three levels. First, ideologically, only the state can lead the campaign for the transfer of control over the sources of capital to financial institutions and rationalize the neoliberal transition. Second, politically the state must provide the institutional platform supporting the neoliberal transition, because it is predicated on significant legal and regulatory changes and requires the repression of dissent for an extended period. Third economically, the state supports the consolidation of the new institutional structure including industrial and financial capital, and the financialisation of the economy through a variety of incentives. These include the increasing reliance of the state itself upon financial market processes and

> standards in a growing number of areas of public policy… [T]he state increases its reliance on the financial markets through the public debt and its trading in secondary markets, which plays a fundamental role in the profitability of financial institutions, and the stabilization of the financial sector. The financialisation of the state is not only essential for the reproduction of neoliberalism; it has also been shown during the current crisis that the state remains the ultimate guarantor of the viability of neoliberalism.

Well known strategy of "depoliticisation of the economic management" captures the second pillar above, and one can argue that "the internationalisation of the state" can be used to provide a better outline, if taken from a general point of view. I will suggest however, the unequivocal references surrounding the debate of internationalisation falls short of illuminating the ongoing restructuring since the concept is kept abstract to include every move by the social actors under the banner of the exigencies of global accumulation. In addition, as the review of various contributions imply, it presupposes a global consensus or the networks for the transmission of decisions deemed vital, whereas the financialisation process or the financialised accumulation reveals that a consensus on regulation of finance and on the recipes for avoiding finance to become a snake eating its own tail are conspicuous by their absence. It is critical to emphasize the contradictions arising from the financialisation and the state's role within that process and the outline above should be grasped, by no means, as the description of a formation external to the nation state.

4. 4. Strategic-Relational Analysis of Financialisation of the State

Gramsci pointed out the need for an extended conception of the state in his prison notebooks. For him, "the general notion of state includes elements which need to refer back to the notion of civil society" (Gramsci, 2000: 235). In oft-quoted formula state equals to political society *plus* civil society or "hegemony protected by the armour of coercion" (ibid.). The correspondence between state and civil society implies that the state action is backed by civil societal developments and the hegemony needs to be reproduced in the face of challenges.

In order to provide a relational analysis of the *financialisation of the state*, the focus, in our concern should be on the ways in which the hegemony is reproduced and the constellation of social forces in and through the financialisation. To put in other words, the containment of the contradictions inherent in the capital accumulation by the state throughout the financialisation of the economy implies continuous restructuring of the state. The state has to cope with not only contradictions arising from the integration of the domestic productive capital into processes of global accumulation (see Clarke, 2001: 80) but also the contradictions emanating from the growing importance of financial transactions. It is by way of presentation of the interests of the financial sector as the "general interest", the state managers and representatives of the capitalist class attempt to generate consent among wider sections of the society. The other option is labelling the alternative strategies as unrealistic or impractical, or even as the products of ignorance. If the potential rival projects are neutralised as seen in the recent decades, financial crises can be naturalised and accepted as inevitable.

Gramsci implied that the dominant class would not only attempt to form alliances but also lead wide sections of society in moral and intellectual sphere for construction of hegemony. The success of hegemony depends on undermining alternatives and highlighting particular strategies. These strategies are however identified as the reconciliation of particular interests. A hegemonic project links the state activities to the "broader – but always selective – political, intellectual and moral vision of public interest" (Jessop, 2007: 44). A state project, on the other hand, attempts to "impose an always relative unity on the various activities of different branches, departments and the scales of the state system" (ibid.).

In structural terms, the bias towards particular strategies on state level is discussed by Offe (1974). By pointing out the dependence of capitalist state on the reproduction of the capitalist social relations of production, he asserted that state intervention into economy is necessary for maintaining relations of exploitation; even though the intervention carries reformist characteristics (see Barrow, 1993). Jessop develops his understanding of "strategic selectivity" by revising Offe's notion and referring to Poulantzas' works on capitalist state. Strategic selectivity comprises

> ...the ways in which the state considered as a social ensemble has a specific, differential impact on the ability of various political forces to pursue particular interests and strategies in specific spatio-temporal contexts through their access to and/or control over given state capacities – capacities that always depend for their effectiveness on links to forces and powers that exist and operate beyond the state's formal boundaries (Jessop, 2007: 40).

Support given to proliferation of financial transactions, internalisation of capitalist imperatives in respective state institutions and socialisation of the losses of the financial sector can be seen as basic facets of the restructuring of the state through financialisation. This has been explained by Jessop (2007) and Hirsch (2003) with reference to *denationalisation*, *destatification* and *internationalisation of policy regimes*. The dominant trends of state transformation in recent decades gave their flavour also to the relations between business groups and the state. Reflections on state strategies and the relations between the business and the state[49] can be analysed:

- Firstly, by pointing out that business groups do not comprise homogenous sets of firms. The production structure of a particular group will be effective in the formulation of demands. The competition between the groups will also structure their public campaigns and strategies.

- Secondly, by noticing that the business groups operate also on international level. Running after profitable outlets, they can press for particular projects which will strengthen their hands in terms of the integration into world economy and their competitiveness.

- Thirdly, by underlining that not only IFIs but also non-governmental bodies (such as credit rating agencies [CRAs]) and supranational organisations impact upon the expectations from the state. The state's capacity to promote particular routes for accumulation depends also on the international regimes and institutions.

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[49] The argument here relates to that of Bieling (2007: 15-16) and his discussion on conceptualisation of the relationship between state and the business groups.

- Last but not least, by emphasizing that the reforms should be presented by state managers and business groups as viable solutions to society at large. Social and political struggle as well as the compromises and reformulation of strategies, reversing dominant trends, are always on the agenda.

From all this follows that for a strategic and relational understanding of the *financialisation of the state*, the transcendence of the formal boundaries of the state should be taken into consideration. In terms of financialisation, the strategic selectivity of the state refers to the support from benches of state to financial deepening and/or the proliferation of financial transactions and the growing capacity of financial sector to determine the faith of the economy. Financial markets operate beyond the state's formal boundaries. Decisions of policy makers and actions of financial investors on international level impact upon the capacity of nation-states, pursuing particular projects. New forms of international regulation and networks complement state activities. The concern for improving international competitiveness and providing new opportunity structures for business groups lead to market-oriented restructuring of state apparatus (see Bieling, 2007: 13-14).

All these transformations can be summed up by referring to the growing dependency, of not only states but also business groups, on international financial markets and isolation of decision-making processes from democratic control. *Financialisation of the state*, though he prefers the term internationalisation, is partly explained by Hirsch (2003: 245):

> In the course of neoliberal globalization and the deregulation and privatization which go with it, individual states are becoming increasingly dependent on international financial markets, whose primary actors—above all, the "strong" states and multinational companies—determine the policies of individual states to an increasing extent by means of effective economic mechanisms. They are able to do this in a more or less nonpolitical manner independent of any mechanisms of democratic control or decision making. This finds institutional expression in significant shifts in the configuration of the governmental apparatus of individual states. A significant part of this process is the growing weight of ministries of finance and of central banks which are largely independent of democratic political decision making processes. Both are closely linked to the interests of international capital and act as mediators between international capital flows and the policies of individual states, or even simply as transmission belts. This is above all the institutional expression of an administrative internalization of global imperatives in the political processes of individual states.

Socialisation of losses of the financial sector and the commitment of state managers to the deepening of financial markets should be taken together with the dependence to international financial markets, depoliticisation of economic management and internalisation of capitalist imperatives. The intervention of the state for the socialisation of the risk and losses as seen in the aftermath of financial crises in both advanced and "emerging" capitalist countries within the last few decades point out a state restructuring in which the state seems to be locked-in so as to serve financial interests, thanks to the defeat of labour parties, representatives of working classes and the marginalization of radical trade unions. As it is known, the state not only provides the extra-economic measures for sustainment of capitalist production and reproduction of capitalist relations, but also acts as a major economic agent. States can go beyond the socialisation of risk and may engage in commodity derivative transactions to hedge their own risks that may occur in generation of revenues from the sales of products owned by the state. The reformulated state-finance nexus provides a blanket guarantee for the financial sector, but the importance of economic activity of the state goes beyond the socialisation of risks, understood in narrow sense of the term.

As seen in the intriguing features of financialised accumulation, states by issuing the basic traditional primitives, i.e. state bonds, provide the underlying asset for many financial derivatives. Moreover, the yield of public securities provides a benchmark for other financial assets. CDS base points and the yield curve of public securities imply not only the ability of the state to roll over debt but also provide clues for the general state of affairs in an economy. The importance of CDS resides not only in their functioning as the indicators of sovereign default risk and the cost of protecting bondholders against default. CDS are used for designing synthetic CDO in which the income stream generated from selling protection against default is capitalised or the volatility within the stream is priced and turned into a financial product such as a credit derivative. Sovereign authority faced with the urgent need to roll over debt need not only to provide stability of the currency but also to take into consideration the CDS point and the derivatives market. The derivative creates an "artifice of indifference" (Wigan, 2009) to the existing situation since the underlying asset is not owned by the investor in the derivative market. Nevertheless, it also ties present to the future (Bryan and Rafferty, 2006), since what is priced turns out to be the ability of the sovereign state to meet its liabilities. The possibility of a crunch in the derivatives market may squeeze the financial resources necessary to roll over debt. At the same time the ability of the sovereign state to meet its liabilities is constantly measured by the CDS market. The channelling of state resources to well-being of financial sector *via* financial innovations that capitalise not only the future tax income of the state, but also measure its ability to meet liabilities is a key element of financialisation.

Notwithstanding the variety of mechanisms for facilitating capital accumulation, attempts for the control of money and labour in other words; the state, it has been argued, has been captured by finance. In their discussion on the similarities of the response to the recent international financial crisis given by advanced capitalist West and the failures of Soviet planning, Visser and Kalb (2010) suggest that the financialised capitalism gives way to a state intimately linked to financial interests. State capture by big finance, as seen in the recent international financial crisis, means the recapitalization by the states, of financial system within a few days of time without any democratic deliberation. The use of billions of dollars of future tax income for the recapitalization of financial sector can be seen as a striking example of the socialisation of the losses of the sector. It indicates the power of capital as a claim upon the future income of the state in particular, social and state restructuring in general (see Nitzan and Bichler, 2009). If we rely on Poulantzas (2000 [1978]) and assert that the class struggle is materialised within the state, then the "state capture" by finance can be seen as the success of financial elites and capitalists in making the state pay for their losses.

Problems of the strategic-relational approach as formulated by Jessop (2007) are evident in intricacy of the concepts allowing a space for instrumentalism. There is the threat to portray the state as the instrument of "financialised elite" (Savage and Williams, 2008). For avoiding such instrumentalism, the relations between business groups and the state should not be thought as unidirectional. It is not that the capitalists and fund owners decide unilaterally and declare their wishes. Their decisions and inclinations are also shaped by accumulation of social struggles, previous decisions and compromises. The complementarity between selectivity of the state and business strategies is not given or sealed. In that sense, the state as the “material condensation of class forces” (Poulantzas, 2000 [1978]) is not only the realm of decision-making, regulation and control but also the realm of networks, strategies and struggle. It should be kept in mind that the selectivity of the state and its bias towards particular projects are always contested. The success of a project depends on the result of the ideological-discursive struggle which is always conditioned by the material capacities and organizational power[50] of social classes.

4. 5. Conclusion

Internationalisation of the policy regimes or the depoliticisation of the economic management shows a variegated pattern across different nation-states. This study, however, uses the term *financialisation of the state* in order to underline the state support given to proliferation of financial transactions, internalisation capitalist imperatives and standards demanded by financial sector, and state’s attempt to bail out financial sector in times of crises. A strategic-relational analysis of state intervention in and through financialisation should acknowledge variations in the nation-state transformations and mechanisms. It should also underline the fact that contradictions arising from capitalist accumulation are inscribed in the state so the intervention does not mean resolution of problems standing in front of capital accumulation.

Elmar Altvater (1978) argued that the state should be best conceived as a fictitious capitalist in that the particularisation of state in bourgeois society functioned positively for the capital accumulation. In such an understanding, by no means peculiar to Altvater, the state would function for the reproduction of the social relations of production in a system which would otherwise be defeated by its self-generated tendencies. The argument in this chapter is not in favour of such a

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[50] The organisational power of the members of the financial sector have pushed Foster and Holleman (2010) to portray close relations between the policy makers and financial sector representatives as a symbol for *financialisation of the state*. They revisit the instrumentalist conception of the state by referring to the US based “power elite” discussion and suggest that the backgrounds of the US secretaries, deputy secretaries and members of National Economic Council show “the penetration of the financial elite into the corridors of state power” (ibid.). The analysis in this study shares a similar concern. However, Foster and Holleman’s study (2010) or the “regulatory capture” arguments suggesting that those sectors to be regulated have captured the supervisory institutions and relevant branches of the state highlight rather a narrow part of a broader picture.

functionalist understanding of the state. The restructuring of the state, referred as the *financialisation of the state* should not be grasped as the *a priori* transformation of the state in line with the predetermined needs for the regulation of the system. What the Marxist state debate included, alongside many structuralist-functionalist understandings, was that the state as a moment of class struggle should not be understood as an entity and a saviour of capitalism. The state is not immune from the contradictions inherent in capitalist social relations and it is subject to the new ones arising from its own intervention. One cannot propose uniformity within the forms of intervention in every state. What I want to underline is that the restructuring of the state is an uneven process as its contribution to the process of financialisation. The general outline presented here can only help to understand the trait of financialisation and particular forms of state intervention related to the ongoing transformation and volatility in international and national financial markets.

It has been argued in this chapter that the state debate of the 1970s provided an insight to overcome the strict duality between state and market or the political and the economic, proposed by the mainstream. By touching upon the interrelated fields of research on “internationalisation of the state” and the “depoliticisation of economic management”, it was argued that the remaining ambiguities surrounding the uses of the terms should be dealt with to grasp the transformation of the forms of state intervention through financialisation.

It is briefly stated that the apparent consensus of nation-states, which seems to be prevailing in the fields of monetary discipline and containment of labour struggle, could not be extended to the sphere of the regulation of international financial markets. The complexity is that, this does not mean the lack of either an orientation on the side of policy makers and state managers for provision of the legal-political framework for financial transactions or an explicit commitment to the deepening of the financial markets at the national level.

This chapter suggested that a strategic-relational approach to the *financialisation of the state* would be helpful in analysing the restructuring of the state in the recent decades. Accordingly, the state attempts to contain contradictions arising from the process of capital accumulation. This leads to the appearance of the capitalist state being locked-in so as to serve financial interests in the period of financialisation. Nevertheless, the state is not a homogenous bloc but comprises various institutions within a historically specific institutional ensemble. State projects are formulated to give a temporary and relative unity to this institutional ensemble. Capitalist state promotes particular strategies while at the same time, it is presented as a unitary entity taking binding, regulatory decisions and serving the public interest. The moral and intellectual leadership of the dominant class is supported by such an image of the state. The state however advances particular interests and it is this impact upon the ability to pursue particular strategies that characterises the form determination, i.e. the state as a form assumed by the social relations of production determines the course of the relations which underlay political and legal institutions.

In the case of financialisation, the strategic selectivity of the state implies the impact of the state upon the ability of the business groups to pursue proliferation of financial transactions, rely on financial investment and the growing capacity of financial sector to determine the course of the economy. The insight that can be gained from the critical state debate is that the intervention of the state cannot overcome the contradictions of capital accumulation in general and financialised accumulation in particular, but can provide temporary solutions which make particular sections and/or and classes suffer more. Insulation of economic management from popular pressure plays a critical role in that sense. It facilitates the implementation of austerity measures and reform programs by placing at one remove the political character of decision making.

Another issue to be emphasized is a critical approach to the formal boundaries of the state. As mentioned by the participants of the Marxist state debate, decisions of policy makers in monetary and fiscal fields, and actions of financial investors on international level impact upon the capacity of nation-states. In addition, new forms of international regulation and networks complement state activities. The market-oriented restructuring of the state apparatus with neoliberal principles consolidates the dependence of states on the international financial markets on the one hand and transforms the state in order to render it more competitive in terms of providing advantages for the business groups on the other. By taking into consideration the restructuring of the state and dominant trends in restructuring, an analysis of the relations between business groups and the state can be given.

Uneven character of the financialisation and the contradictions arising from the integration of national economies into world economy requires us to face a difficult task: to discuss the peculiarities of financialisation, its impact on and contribution to the restructuring of the nation states from a general point of view on the one hand and point out the various mechanisms and forms of intervention that support (and in some cases possibly undermine) the financialisation of the national economy and global economy on the other. This chapter attempted to derive insights from the Marxist state debate and its offshoots in order to face this task.

Financialisation of the accumulation, i.e. the growing importance of fictititous capital and financial derivativeswithin the accumulation process strengthens the contradictions of the capitalist mode of production. The restructuring of the state through financialisation is conceived in this chapter as an attempt to contain contradictions emanating from the financialised accumulation. *Financialisation of the state* in Turkey can be discussed along these lines: as a series of attempts to contain contradictions, which had a differential impact on various political forces and/or classes. As it will be seen in the Turkish case, state has been continuously restructured in the post-1980 period. Persistent aim of financial deepening, given the debt ratios and capital account liberalisation, brought with itself the unpleasant gift of financial instability and crises. These were actually “organic moments” within the process of capital accumulation. The revealed contradictions were contained by further restructuring along the lines of intermittent depoliticisation of public debt management, gradual adoption of international standards and practices in the financial arms of the state and finally reforms for socialisation of risks and the losses of the financial sector. These were all embedded within the changing mode of integration of “emerging markets” into world economy.

CHAPTER V

FINANCIALISATION IN “EMERGING MARKETS”:
BRIEF HISTORY OF INDEBTEDNESS,
FINANCIAL LIBERALISATION AND DEEPENING

5. 1. Introduction

A country is labelled as “emerging market” according to not only the prospect of becoming an advanced capitalist country but also the level of national income and financial deepening (see Mosley, 2006). These countries faced severe crises in the aftermath of financial liberalization wave. Indeed, before the interest rates and capital account were liberalised, many “developing countries” faced problems in rolling over their debt and balancing their current account. The frequency of these crises, however, seemed to increase in the aftermath of the collapse of BW in the early 1970s.

BW provided a framework in which the US was the provider of liquidity and the maintainer of the system as the hegemonic power. IFIs were founded to support the stability and growth in member countries. IMF acted as the lender of last resort to overcome the current account crises while World Bank (WB) would provide support for development projects and construction of infrastructure. The international financial architecture and the roles of IFIs changed with the collapse of BW, which had drastic consequences for the organization of global capitalism.

Scholars did not speak of “emerging markets” during the late 1970s and early 1980s at the peak of international debt crisis. Scapegoating the institutional framework in “developing countries” and the import substitution industrialisation together with the protectionist policies was ordinary in the aftermath of the crisis. Newly coined phrase of “emerging market” was functional for qualifying the middle-income countries which were advised to follow the neoliberal footsteps for successful integration with the world economy and increasing welfare. The term became much more popular during the alleged globalisation wave. As LiPuma and Lee (2004: 5) suggested with reference to the 1990s “the concept of the ‘Third World’ apparently rendered senseless by the demise of the Second and dissolution of the First into the image of the planetary market”. The “emerging market” discourse provided a crude version of modernization theory in that the country would strip the adjective “emerging” only after the level of income would catch up with the advanced capitalist countries of the West. The question “Were all the industrial economies of today not the “emerging markets” in one period of their economic history or the other?” (Das, 2004: 2) indeed, reveals this modernization perspective.

This chapter aims to give a brief account of the developments leading to debt crisis and the ensuing financial liberalisation and deepening in “emerging markets” with particular emphasis on the debt-driven expansion of global finance after the end of the post-war international monetary order. As it will be emphasized in the second section, the symptoms of such expansion were already noticeable before the official collapse of the system. It will be stated that the *Eurodollar* market formed a hub for speculation and a profitable field of financial investment grew out of the control of nation states. *Eurodollars* undermined the fixed exchange rate framework of BW and increased the need for hedging risk in case of currency volatility. *Eurobonds* and *Eurodollars* were also functional for supplying the funds necessary for restructuring of the MNCs. The third section summarizes the international debt crisis in the early 1980s and the prevalent mode of thought in financial headquarters for the resolution of problems. This section and the following discussion on financial liberalisation in the fourth section suggest that neoliberal belief in the efficiency of market forces did not bring about the elimination of debt problems. The countries that would subsequently be called “emerging markets” would have to offer high interest rates for debt rollover and implement austerity policies in line with the stabilisation programs. The volatility of capital flows was increasingly defining the character of economic cycles in these countries, in need of capital for investment. The formation of market for bonds of “emerging markets”, on the other hand, implied that these countries resorted to international financial markets for debt repayments and access to new sources of finance. The fifth section discusses the concept of “emerging market” and deals with the prevalent and alternative understandings of the root causes of crises in “emerging markets”. The sixth part revolves around the strategies pursued by “emerging markets” notably in the aftermath of East Asian crisis and the growing importance of sovereign credit ratings in the last decade. It is suggested that the stability concern prevalent in “emerging markets” paved the ground for the implementation of some strategies which contributed to the global and domestic financialisation. The seventh section revisits the financialisation debate and suggests that an account of the developments in “emerging markets” enable one to claim that financialisation can be observed also in economies with relatively shallow financial markets. The mechanisms and the indicators of financialisation in “emerging markets” differ from those in the advanced capitalist countries. The concluding part summarizes the chapter and points out the contradictions faced by “emerging markets” during the process of financial deepening.

5. 2. The Collapse of Bretton Woods and Eurodollar Market

Post-war international monetary system relied on the role played by dollar as the international currency. The system in which the currencies of other nation-states were pegged to dollar gave the US tremendous power in terms of influencing the world economy. This power did not diminish after the collapse of the BW system, in contrast to its interpretation as manifestation of the decline of hegemon’s power by the theories of hegemonic stability. The collapse of the system, indeed, can be linked to the very successes of its functioning (see Frieden, 2005). International monetary system design in post-war period played a vital role for the amalgamation of domestic concerns with the search for the global integration of war-torn economies and developing countries to the world market.[51] Dollar served as the basic means of payment for the members of BW, as a result of the commitment of the US to redeem dollar for gold ($35 for ounce) at any time. As D’arista (2005: 221) underlined “the requirement that member countries exchange their currencies for gold to settle balance-of-payments deficits gradually undermined its [dollar’s] dominance in the

[51] John Ruggie (1982) portrayed the world order as a liberal one because of its social purpose, i.e. integrating the economies into the world and facilitating trade and investment. It was, however, “embedded” as the domestic concerns for welfare provision within the nation-states were equally important. Langley (2002) takes the notion of “embedded liberalism” as an adjective for explaining the financial system within the BW framework. Embedded liberal financial order, in his terminology, left its place to an order of uneven credit practices after the effective collapse of BW.

1960s." Itoh and Lapavitsas (1999: 192) argued that the government spending and foreign direct investment in addition to the diminishing trade surplus led to deficits in the balance of payments of the US. As the maintainer of the system herself was not capable of presenting a sound balance sheet, the main pillar on which the system of BW rested was no longer there. When the US began to give trade deficits and the dollars in the international money markets exceeded the gold reserves at hand, it was soon grasped that the fiat currency should have had less value than the one prevailing in the international transactions (Cohen, 1995). The fundamental contradiction embedded in the functioning of the system pushed the US to introduce capital controls in order to avoid outflow of capital (Vasudevan, 2008: 1067). It resulted however, in the expansion, *via* the activities of offshore branches of the US banks, of the formerly created space of speculative action in the Eurodollar market.

The growth of Eurodollar market was brought about by the Suez crisis and as British banks[52] "started bidding for dollar deposits to lend to their clients in former colonies" (Dickens, 2005: 211). There is no data for the 1950s, but the British share in Eurodollar market exceeded 60 % in the late 1960s. The substitution of sterling based business by British banks for dollar-based order was critical for Eurodollar market (Dickens, 2005: 211-212). The market was not subject to regulations of a monetary authority. Burn (2006) indicates that it was of little significance at the end of the 1950s and the US Treasury did not know the details of the market until 1962. Current account deficits of the US provided the channel for the US banks to employ Eurodollars in financing balance of payments deficit in the early 1960s. It appeared that the decisive stance of the US monetary authorities against higher interest rates on dollar loans reinforced the use of Eurodollars by banks in quest of profitable operations (Dickens, 2005: 213-216). The result was the formation of a market which was comprised of huge funds that could blow the fixed exchange rates of national currencies. Eurodollar market rose as a sphere for speculative actions and signified the first symptoms of global financialisation in the second half of the 20th century. "The securitization of commercial banking and expansion of investment banking was already visible in the 1960s, with the growth of the market for

[52] Strange (1997) underlines the importance of the decision to open the City in 1951, which would become the nodal point for speculative flows in the 1960s.

Eurodollars and the creation of the first viable computer models for analysing financial risk" (Panitch and Konings, 2009: 69). The shift to a world of financial volatility and fluctuating exchange rates increased for corporations the need to hedge risk and the importance of financial investment (Eatwell and Taylor, 2000).

Helleiner (1994) states that the US authorities, in the 1960s, attempted to discourage the export of capital by banks and corporations through a capital control program, which resulted in the participation of American banks in the Eurodollar market. This has strengthened the transformation of Eurodollar market from a short-term money market to an international capital market. Eurodollar markets precipitated the official collapse of BW fixed-exchange rate system. The collapse of BW monetary framework resulted in consolidation of what D'arista (2005) called the "privatised international monetary system", which means the transfer of the power of settling the payment deficits to the private hands, namely banks. What is more important was the irreversible shift that the new system underlined: the transformation of the US to the "borrower of last resort" (Vasudevan, 2008) while the dynamics of financialisation revealed themselves in the growing demand for "hedging risk by trading futures and options on exchange rates, as well as on interest rates for government and private securities" (Panitch and Konings, 2009: 69).

Therefore the strengthening of Eurodollar market not only meant the formation of an unregulated international financial market, but also it proved functional for transition to what Robert Triffin called "paper dollar standard". Many European governments criticised the US policy framework and demanded from the US to put her house in order for continuation of BW system. The Eurodollar market pushed financial investors to hold dollars and Europe's central banks to impose their own capital controls against speculative capital movements in the 1960s (Helleiner, 1994: 91-95). The US, unable to remove current account deficit sought to prevent capital outflows and imposed unilateral restrictions. The US government did nothing more than supporting the development of the market as it supported paper dollar standard in case of the inability of Federal Reserve to redeem dollars for gold in a period of dollar glut. In other words, it provided the space in which every move against the feared ravage of financial speculation served financing the US deficit by foreign investors (Vasudevan, 2008).

It appears then, that the emergence of “privatised international monetary system” is the product of not only private hands but also public authority. The search of governments for alternative credit mechanisms and the open support by the US in the second half of the 1960s (Helleiner, 1994; Langley, 2002: 84) made the shift possible. In other words, the collapse of BW is not the retreat of sovereign states from market sphere. The role of regulations made and decisions taken cannot be disguised simply under the notion of increased market authority since what is conceived as the inability to repress the newly emerging, unregulated and international financial sphere is the unwillingness of the states of the advanced capitalist economies to do so. To put more bluntly, it can be read in relation to the political demands of the configuration of the dominant classes in the advanced capitalist countries.

Helleiner (1994) suggests that from reinterpretation of IMF clauses to the revitalisation of Bank of International Settlements (BIS), many measures were directed to the protection of the BW framework and separation of productive capital mobility from short-term speculative movements in order to allow the former in the 1960s. Unilateral capital controls, however, as the signifiers of the commitment to BW framework, did not hamper the development of offshore financial markets. Though seems controversial, there were also attempts for the shift to a more financially liberalised order as seen in the attempts of the “offsetting financial networks” (Helleiner, 1994) in IMF and BIS.

The collapse of BW signified not only a change in the international monetary system but also set the train of important changes in many “developing” countries. Among the reasons of collapse, the design of the system proved unsuitable for encompassing the changes in the global economy, which was increasingly characterized by the growing importance of financial speculation and capital flows. The BW institutions had also undergone changes after their foundation. The surveillance provided by these institutions after the international debt crisis, currency and banking crises became a defining feature of the transition to neoliberalism in many “developing countries” which would be subsequently called as the “emerging markets”.

5. 3. The Debt Crisis and Washington Consensus

While, within BW framework, the developing countries had a chance to use their resources for developmental aims, the loans they received provided an additional factor for compliance with the principles of the international credit system. As Soederberg (2005) mentions, the transnational debt structure within the BW framework revealed a pattern in which bilateral and official loans were dominant. Those countries having troubles in their balance of payments were expected to implement stabilization programs to use the loans provided by IMF. Paris Club, though an informal organization formed in 1956, played an important role in the postponement of the payments of debtor countries. Within the BW system, the integration of developing countries into the world economy necessitated sound balance of payments and it appears that the financial repression was a key for encouraging the long-term development.

Notwithstanding this notion of financial repression, the reiterated emphasis on the productive role of foreign direct investment should also be noted. In the case of the emergence of Euromarkets and the increasing threat of speculative flows, it was also the response of "offsetting finance networks" (Helleiner, 1994) to distinguish speculative flows from those productive ones in order to support the latter and cope with the former (see also Abdelal, 2006). The reinterpretation of IMF articles, however, in the 1960s and the 1970s undermined this distinction in an increasingly open financial environment and culminated in the official revision of IMF articles to allow the use of IMF resources to finance all sorts of capital movements (Helleiner, 1994: 96-100 and footnote 44).

Up until the 1970s, the dominant debt pattern of developing countries was characterised by bilateral official loans and credits of BW institutions (Balkan, 1994: 65). Banks emerged as critical actors in the recycling of petrodollars in the 1970s. This was "a process in which the banks replaced the governments of industrial countries as lenders to developing countries but did so with the approval, encouragement and implicit support of the governments of the industrial countries" (Dooley, 1995: 263). This process and the environment in which banks played a critical role in credit extension to developing countries were not devoid of disagreements between different policy proposals. As seen in the concerns of Western European and Japanese policymakers and the opposition of the US against any cooperative initiatives to control capital movements (see Helleiner, 1994: 102-111) the governments of industrial countries did not have a clear prescription to remedy the soaring problems of international financial system. The growing belief, however, in the efficiency of market for the allocation of capital was undeniable.

Maintaining a distinction between market authority and "embedded liberal framework" of the post-war international monetary order, Langley (2002: 86-87) puts the transformation as follows:

> The four-fold increase in the price of oil from late 1973 generated both a demand for credit to maintain consumption among oil importers, and a supply of capital accumulated by oil exporters. It was left to the market institutions of the London-centred Euromarkets to undertake so called 'petrodollar recycling'. Much of the capital accumulated by oil exporters became deposited in the Euromarkets and formed the material basis for sovereign and corporate credit creation in the wake of the crisis. In terms of sovereign credit practices, the Euromarkets displaced the authority of the IMF in financing balance of payments deficits after 1974 (Germain 1997: 92-3). Eurocredits were dramatically expanded to sovereign borrowers in underdeveloped state-societies in particular, a set of practices that was to culminate in the so-called 'debt crisis' of the early 1980s.

The extension of Eurocredits into developing world was not an even process. Those countries to be called as "emerging markets" in the 1990s had received most of the credits and the countries of Africa, with their increasing debt problems because of public loans, were not drifted to the game of private lending to the same extent as the countries of Latin America were (see Altvater and Hübner, 1991: 9). The lending activity deserved to be marked as excessive since the total debt of the "underdeveloped" countries increased twelve times between 1970 and 1982 (Balkan, 1994: 27). The average growth of external debt of developing countries increased on a rate more than 20 % per annum, from 1973 to 1982 (Altvater and Hübner, 1991: 9). It is mentioned that the investment projects of many developing countries necessitated foreign credits and the international financial markets provided the funds at relatively low interest rates because of the need for recycling petrodollars. The industrial projects in developing world provided a channel for flow of dollars in Eurocurrency market and the credits also helped the industrial restructuring of

MNCs (Langley, 2002). It should be added, however, that the beginning of the supply of credit to the developing world preceded the oil shock, mainly because of the declining level of investment in industrial countries (Balkan, 1994). It is for this reason together with the accumulating pressure from neoliberal circles in conjunction with the insistence of the US policymakers to preserve dollar as the key currency, a more liberal international financial environment was furnished in the 1970s.

The banks became major lenders in the 1970s and they were able to gain substantial profits through such a lending activity thanks to two basic mechanisms: syndicated credits and floating rate loans (see Strange, 1997: 48-49). Syndicated credits were already in use in Euromarkets but were adopted for lending to sovereign actors so that many banks could join the game by sharing the risk. Balkan (1994: 68) states that this mechanism also pushed banks to continue lending despite the signs of a possible default as it seemed profitable to remain in the game. Floating rate loans, on the other hand, transferred the risk to the debtor by enabling the banks to adjust the interest rates in the case of inflationary shock, despite the contrary thought that adjustment according to London interbank offer rate would protect both the banks and the debtor (see Dooley, 1995: 269). It is mentioned, on the other hand, that the cost of the credit offered in Euromarkets was favourable for developing countries given the cost of official credits (Altvater and Hübner, 1991). From such a point of view, it is not the constant shift of risk, *per se*; that led to sovereign default and debt crisis but the cutting of further credits while the interest rates rocketed in the late 1970s (see Balkan, 1994).

The high interest rate policy of Federal Reserve starting in 1979 pushed many countries into a severe debt crisis.[53] The decline of the importance of IMF in the 1970s, in terms of financing the balance of payments deficits of countries proved temporary since the Fund came to play an important role in the rescheduling of debt and implementation of stabilization programs. "Between the middle of 1982 and the end of 1984, 66 Third World nations (more than half of the IMF's Third World member countries) were forced to yield to rigid austerity programmes" (Chahoud,

[53] For a class analysis of the international debt crisis see Cleaver (1989).

1991: 31). The surveillance duties of IMF was reorganized (Soederberg, 2005) with the aim of strengthening the subjection of the debtor countries to the discipline of debt service. IMF reports, in this framework, would provide the necessary condition for refinancing debt. For solving debt service problems, it was argued, the government should give up boosting money supply and reduce fiscal deficit.

The changes in the international system seem, at first sight, to support the propositions of IFIs: no fiscal deficit, no debt service problem. A close look, however, denies such formulation. First of all, it assumes sovereign and unitary agents in both sides of lenders and borrowers. These cannot be treated on the same ground because of the imperialist nature of world capitalism. The critical role of banks as financial intermediaries in the 1970s weakens the assumption blaming the mismanagement of the economy by sovereign authorities. Secondly, it detaches the relation of debt and credit to the accumulation of capital and the constant search of capital to "annihilate space by time", i.e. to overcome the spatial constraints by capital flows. In the case of late 1970s, European banks, lent heavily, in search of higher profits, to developing countries with budget deficits. The debt crisis, which hit mainly the Latin American nations and paved the ground for naming the 1980s as *decada perdida* (lost decade) can be seen as part and parcel of the increased financial activity through petrodollars (Altvater and Hübner, 1991), which was a reflection, at the same time, of declining profit rates in advanced capitalist countries.

"International debt crisis arises when the sum of a borrower nation's cross-border repayment obligations cannot be met without radically altering expenditure levels or renegotiating repayment terms" (Dymski, 2003: 90). The response of BW institutions in the face of international debt crisis can be summarised in a few sentences: These institutions with stabilization-cum-structural adjustment programs, on the one hand, sought to make borrowers pay back while, on the other hand, suggested export orientation and trade liberalization so that these developing countries would gain their "pre-shock growth path" (Balassa, 1982). Washington Consensus put forward the liberalization of the economy of the developing countries and delivered sermons, addressing the aim of deregulation. It was the banner, under which the credibility of nation-states gained utmost importance. The conditional lending of IFIs in the 1980s worked with a bias against public sector and through the assumption of markets functioning perfectly (van Waeyenberge, 2006). The Washington Consensus, as a set of policy prescriptions pointed out reduction in public expenditure, trade liberalization and privatization as well as "getting relative prices right" as the remedy of economic troubles faced by developing countries (Öniş and Şenses, 2005: 264). The state interventionism was condemned and the determination of interest rates and exchange rates, it was advised, should be left to market forces for efficient resource allocation.

The 1980s or to use the name given in the following decade, the period of the Washington Consensus clearly marked a break in terms of the post-war trajectory of state-market relations. The mentality of conditional lending also pushed the implementation of some sector reforms in those countries with balance of payments problems. In resolution of debt crisis, it was critical to provide the legitimacy of the reforms and strangle the free movement of borrowers at the same time.

> Creditors, including both official and private lenders, must see to it that the noose is snug enough to weaken any resolve the debtor countries might have with regard to decoupling, while coercing them to continue to engage in accumulation by dispossession, or what in this context may be considered socioeconomic strangulation. Put in less sinister terms, the disciplinary and bargaining power of capital over debtor states must be administered in such a manner to integrate debtor states into the global financial system so that they become increasingly dependent not only upon loans from private and public creditors and the subsequent rescheduling and refinancing agreements, but also on the overall stability of the global capitalist system (Soederberg, 2005: 936).

This approach was at first sight contradictory and the neoliberal hegemonic configurations rose on this contradictory basis. Conditional lending was the basic mechanism adopted to recreate the conditions of "accumulation by dispossession". The success of the plans and conditional lending, however, in quest of mentioned solution remained open to debate. The advocates of conditional lending such as Sachs (1989) claimed that the efficacy of conditional lending, i.e. the power to produce the desired results such as trade liberalization, outward orientation and minimum state intervention concerning the relative prices; was very limited. In providing the details of the potential and actual problems during conditional lending Sachs (1989) maintained that the role of IMF and WB was critical for negotiations between debtor governments and private capital as well, despite the failures of programs to resolve the debt crisis.[54]

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

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[54] Indeed, it was expected in the early 1980s that the commercial banks would provide new credits to help debtor governments stand on their own feet. The empirical record had shown, however, that the "overall net bank lending to the problem debtor countries were negative during 1982-1986, not positive" (Sachs, 1989: 262).[54] As seen in the Baker Plan, it was foreseen that the increased lending by IFIs would be accompanied by new credits provided through commercial banks. The plan did not work when the provision of new credits is taken into consideration (see Chahoud, 1991: 37). It was only effective in rendering funds available for the interest payments and hence assisting banks in major industrial countries (Balkan, 1994: 124-125).

5. 4. Financial Liberalisation and Debt Accumulation

The belief in the efficiency to be provided by financial liberalisation paved the ground for further securitization in international financial markets. The financial liberalization process, however, was not embedded, i.e. the liberalization was not placed within a discussion through which the macroeconomic conditions of particular countries would push for creation of an international financial architecture, which would in turn form a compromise between the social-developmental concerns of domestic economies and the constant search of profitable returns by international finance.

Helleiner (1994) implies that the debt crisis cannot be easily compared to the interwar depression, because of, alongside other causes, the commitment of governments to neoliberal agenda. Together with the conditionality of IFIs, and the help of blossoming securities markets, the crisis paved the ground for further financial innovations. Sovereign credit practices changed gradually under the auspices of financial liberalisation wave. Borrowing from international financial markets became a more prominent feature. The aftermath of debt crisis did not lead to a debt-free environment for debtor countries but a change and diversification in the forms of their borrowing. Corporations also applied more and more to international financial markets in order to finance their investments, hedge risk and compensate for their losses.

It was widely accepted, in the 1990s, through “financial liberalization thesis” (Arestis and Sawyer, 2005) that the liberalization of the economy would include removal of financial repression and, sooner or later, liberalization of capital accounts. Financial liberalization, as it meant the allocation of credit through market mechanisms, would provide further efficiency from the viewpoint of its proponents. Within the mainstream economic theory McKinnon-Shaw hypothesis provided a route for those scholars who asserted the functionality of deepening financial markets for the effective functioning of a market. As it is mentioned “financial liberalization thesis” (Arestis and Sawyer, 2005) is based on the presumption of the efficiency of the allocation of credit through market mechanisms. As a proponent, Levine (1997) in the review of the literature on financial development and economic growth counts the mechanisms through which the financial intermediaries contribute to investment and technological development. Developed financial markets minimise the transaction costs and prove effective in preventing information asymmetries. This line of thinking was widely propagated by BW institutions, by underlining that the rationalization of investment decisions together with the withdrawal of state from steering the economy would make a positive impact upon economy. According to IFIs and advocates of financial liberalisation, investment decisions are subject to rational criteria of the markets, which will have a thorough impact within a financially developed economy. Though, that theory does not suffice to assume one to one correspondence between financial development and economic growth is conceded (Prasad et al., 2003) it is argued that the mobilisation of savings is achieved in an efficient manner by the help of financial intermediaries.

"[E]fficient market hypothesis holds that capital markets generate asset prices that – given available information – are best estimates of the present values of the future income streams from capital assets" (Felix, 1998: 169). In other words efficient market hypothesis is based on the assumption that the real values of securities symbolising ficitious capital can only be grasped under the conditions of free capital mobility. To use the terminology of mainstream economists, minimisation of informational asymmetries by the help of prudent regulation is of paramount importance for efficient market rationality.

The wisdom of financial liberalization was accompanied, on the other hand, by a growing number of reports and articles pointing out the growth rates of particularly the East Asian countries, in which the alleged "market-friendly" intervention prevailed. This brought about an endorsement, on the side of WB, of the perception of state intervention as to augment market mechanisms (see Kiely, 1998). Conjoined with the East Asian crisis and the role of IMF as the deregulator before and through the crisis, the international credit system and the role of IFIs were, subsequently, put into serious question. Regarding financial liberalization it was argued that short-termist financial agents start to dominate the resource allocation process. This phenomenon was called by Ffrench-Davis (2005) as "financierism", as the domination that increases domestic instability and undermines productive sectors.

The volatility of finance and the fact that the countries with remarkable growth rates can experience setbacks directed the attention to problems emanating from capital flows. Not only academic researchers and scholars criticized the perspective that capital account liberalization will be a panacea for economic problems of "emerging markets", but also the studies conducted within the IMF admitted that the conventional understanding within IFIs were not adequate to cope with the crises. This can be traced in the discussion on the amendment of the IMF articles in order to make it compulsory for member states to have an open capital account. The articles were reinterpreted after the collapse of the BW (Helleiner, 1994). However, in the 1980s the preoccupation of the IMF management was liberalization of current account rather than the capital account (Chwieroth, 2010). By changing the Fund's articles, it was planned to make it explicitly stated that the exchange of capital was the major purpose of the IMF. The proposal gained ground in the 1990s during Camdessus period, nevertheless there was not a consensus within the executive board. As Abdelal (2006) puts it financial crises in 1997 and 1998 led to a weakening of the enthusiasm for the proposal within the IMF and withdrawal of the US support opened the way for amendment proposal to the dusty shelves. This should not be understood as a major turning point in the IMF's perspective, since the belief in the desirability of liberalization remained solid. "Rather than implicating capital account openness per se as responsible for the crisis, prevailing beliefs led the [IMF] staff to identify 'disorderly liberalization' as a principal culprit" (Chwieroth, 2010: 187).

As Dymski (2003: 96-99) claims, "market-oriented economists" paid attention to the relations between borrower and creditor and the corruption related to the information flow and cross-border interactions, as the causes of crisis, while the contradictions in capitalist world economy were emphasized by critical scholars. Especially, the scholars in the first camp contributed to the debate on NIFA,[55] as

[55] For many contributors to NIFA debate, the problem was not the surveillance of the IMF or the financial system itself, but the combination of policy errors and corrupt bank-government practices. Soederberg (2002), with an evaluation of G-20 and the Financial Stability Forum, both of which were created in 1999, comments on NIFA as an attempt to blame "emerging markets" and preserve status quo. As mentioned, the activities of financial players and the problems related to the financial centres are taken as given in such an understanding. The problem is not the crisis, but to maintain the repayment of debt. The financial crisis is considered as a problem, to put in more sceptic terms, to the extent it threatens the freedom of international or transnational capital as a result of popular

their methods of detecting the problem led them to propose reforms concerning the international money and credit system. For example, Eichengreen (1999) offered to seek reforms through which the environment, in which the IFIs such as the IMF function, would be changed. Finance eventually leads to crises; the problem is to minimize the costs and frequency of them, from his point of view.

These remarks indicate the characteristic of the last decade in terms of the approach prevalent in IFIs. The orderly passage to capital account liberalization and institutional reforms in fiscal and monetary fields (Calvo and Mishkin, 2003) will make the countries guarded against external shocks and sudden withdrawal of capital. Despite the calls for reforms in the international financial architecture there was, thus, "norm continuity" in IFIs, in the aftermath of East Asian crises (Chwieroth, 2010). The endurance of belief in the capital account liberalization as a long-term goal also shaped the response to the recent financial crisis. The IMF declared that capital controls can have a role in minimizing vulnerabilities of "emerging markets" (IMF, 2011) but only as a temporary relief, not as a substitute for macroeconomic adjustment and financial sector reforms. The calls for further reform, without addressing the problems related to the circulation of financial capital, can be read along the lines of previously discussed (in the 4th Chapter) calls for "depoliticisation of economic management" and internalization of the international standards. In the IMF's terminology, these are dubbed as "policy challenges" emanating from the growing inflationary pressures on the one hand and difficulty of fiscal consolidation in face of slowing growth on the other.

From a more general perspective financial liberalisation can be criticised by highlighting its theoretical underpinnings. Though the empirical evidence is interpreted in both ways by scholars, which leads to further confusion, the advocacy of financial liberalisation is made in rather clear and simple terms. It is claimed that the elements of financial liberalisation such as liberalisation of interest rates and capital flows will lead to higher growth rates as it increases both the investment

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upheavals and boosts demands for scrutinizing financial markets. Soederberg takes NIFA as an initiative to strengthen the belief in ability of international financial system to reformulate appropriate responses to the spate of financial crises. G-20 summits of 2009, gathered in the midst of 2007-2009 crisis, were similar in that vein and aimed to disguise the paradoxes of capitalism and naturalise the exploitative global capital accumulation (Soederberg, 2010).

level and the efficiency of the capital invested. This is because of the higher interest rates and the market rationality imposing their logic. Many scholars, through econometric measuring of country performances, find that the empirical evidence supports the claim liberalisation leads to higher rates of growth (Bekaert and Harvey, 2003; see also Levine and Zervos, 1998; Rajan and Zingales, 1998, Prasad et al., 2003). This line of reasoning however, does not easily match with specific country cases, suffering from staggering rates of growth. With a claim that economic theory does not provide a solid route for understanding the complex relationship between financial integration and growth, Kose et al. (2003) suggested that only after passing a certain threshold developing countries can reap the benefits of liberalization and financial integration. Arestis (2005) suggests that the theoretical background is based on flawed assumptions such as perfect competition or the belief that savings will push investments higher in an automatic manner. The claim on the contribution of capital account liberalisation to economic growth can also be refused with reference to empirical studies that question the benefits of capital account liberalisation. In a recent study van Hulten and Webber (2010) analyse the relationship between medium-term economic growth and capital inflows between 1984 and 2004. They mention that even if the institutional preconditions are met, one cannot observe significantly higher rates of growth in the aftermath of capital account liberalisation.

More important for our concern is that high interest rates in tandem with the liberalisation wave increase the debt service problems of debtor countries.[56] Through increases in the debt of households and individuals, as the savings do not match with the overall demand for credit, the process of liberalisation render the economy more vulnerable to volatility of finance and fluctuations in international sphere (Arestis, 2005: 264). Combined with the securitization dynamics, the increase of debt of households, firms and governments define the emergence and consolidation of what can be called debt economy, characterised by the very accumulation of debt and the expansion of finance through debt dynamics. The new international financial system based on this debt economy is thought to have two significant characteristics:

[56] For a brief discussion of emergence of peripheral countries as "debt societies" and its relation with the US based financial instability see Köse and Öncü (2006).

> *First*, the new international financial system is highly volatile, with exchange rates, interest rates, and asset prices subject to both large short-term fluctuations and longer-term swings.
>
> *Second*, the new system is susceptible to contagion when financial tremors spread from their epicentre to countries and markets that have seemingly little connection with the initial problem (Eatwell and Taylor, 2000: 5).

The volatility and contagion can also be seen as the subjection of "developing countries" or "emerging markets" to boom-bust cycles. It is advocated by the proponents of financial liberalization that this group of countries in need of funds for investment and higher rates of growth should also support the deepening of their financial markets to attract flows and cope with the side-effects of financial liberalisation.

5. 5. "Emerging Markets" and Financial Deepening

Mosley (2006: 103-104) summarizes the criteria used for classification of "emerging markets" by WB's International Finance Corporation (IFC):

> The IFC defines an *emerging market* as a country that meets one of two criteria: (1) it is located in a low- or middle-income economy and (2) its investable market capitalization is low relative to its most recent GDP figures. Nations graduate from emerging markets status once their income per capita exceeds the upper-income threshold for three consecutive years, and once their investable market capitalization/GDP ratio is near the average ratio for developed markets for three consecutive years… In 1996, the IFC introduced a new category, frontier markets. This grouping includes nations that have equity exchanges, but on which trading activity is very thin. When liquidity in these portfolio markets increases, frontier nations graduate to the IFC's set of emerging market nations.

As Mosley (2006: 106-107) underlines only some of the countries attracted huge amounts of capital inflows in the 1990s. The data suggests that almost 90 % of the flows to all low and middle income countries were concentrated in twenty countries, which also indicates a geographical concentration in Latin America and East Asia. The ratio of aggregate flows to Gross National Product (GNP) of these countries varied to some extent, but it was claimed that these flows carried a great importance for the economy as a whole. The capital account liberalization introduced new dynamics to the "emerging market" economies. That is why, Mosley (2006: 109) states that the governments of these countries "are less subject to overt demands from bilateral aid providers, but more subject to the demands and policy preferences of portfolio (and direct investment) market participants".

Growing significance of portfolio investors and market actors as lenders is identified with the increasing power of markets versus governments. This perception is also used for explaining the crises in "emerging markets" in the 1990s and early 2000s. It was because of the mismanagement of the process of liberalization or the crony nature of the government that triggered the crisis from such a point of view (see for example Haggard, 2000). This demarcation of the state from the market and assuming that mismanagement distorts the originally harmonious market treat the governments as lazy students in the classroom of global economy, who need to learn from instructors such as market participants or be punished by their tutors.

Indeed, one can highlight two dimensions in this discussion of the autonomy of "emerging markets" and their governments. The first one is the restriction of democratic scope in relation to the international regulations and privatization of policy issues. Porter, (2001: 106) mentions that "the migration of policymaking up from the state" and taking policy issues into consideration as technical and private matters are the major ways for such a restriction. In our concern, there is an undeniable disproportion between the representatives of advance capitalist countries and the "emerging markets" in those forums and venues critical for formulation of international regulations. The other dimension which is also referred to much more than the first is the increased volatility in liberalised economy and the reliance of "emerging markets" on foreign investment and capital much more than the countries in advanced capitalist West (Mosley: 2006: 111-112). "Emerging markets" are considered to have less autonomy since they are risky and they need to maintain their creditworthiness.

A particular interpretation of this second dimension provides rather a circular argument: "Emerging markets" are risky because they are dependent on financial flows that are volatile in their nature and one can observe sudden stops (volatility) in flows to "emerging markets" as these economies are risky. This does not fit within the complex causality between the organization of financial markets and "emerging economies" as profitable fields of financial and industrial investment. Two points of objection in particular can be raised:

First of all, this process of financial deepening should be located within a historical context. Private investors returned to "emerging markets" after the debt crisis, leading to an increase in levels of portfolio investment (Santiso, 2003: 67). This has to do with the relatively high returns[57] of "emerging market" bonds and the anticipation of the reform and regulation agenda in these countries aiming to deepen the financial markets. Believing that the risky "emerging markets" lack a room of manoeuvre in face of capital flows, subordinates the policy options to the well-being of market fundamentals. Capital flows to "emerging economies" respond to the policy changes in these countries; however, to what extent and in which policy fields the responses constrain the options of policy makers remain as a matter of debate (see Maxfield, 1998). This does not mean that the inclination of the private investors and the forms they invest in "emerging markets" remained the same. While it is true that the market indicators provide a kind of proxy for investment into "emerging markets" and fund managers use the credit ratings and macroeconomic indicators as references, financial investors may not always take into account long-term indicators. In other words, for financial agents "the more relevant variables are not related to long-term fundamentals at all but rather to short-term profitability" (Ffrench-Davis and Ocampo, 2001: 15). According to Datz (2008) the wealth of the investor is not related to the wealth and macroeconomic variables of the country in the same manner as it was decades ago. To put in clearer terms, the second point of objection is the need to object to both the alleged foresight of the market agents and the unjustified homogeneity attributed to the investors. The broadening of investor base, the restructuring of debt and the financial instability can provide profitable

[57] "In a generally low return global environment, "emerging markets" were an option for consistently high returns for money managers. In fact, "emerging market" bonds broke previous flow records in 2005 with investors committing $10 billion to these investments, three times the amount they invested in 2004. The JP Morgan index for "emerging market" sovereign bonds (the EMBI_) registered total returns of 11.8 per cent in 2005. This is more than 400 per cent the amount of returns of an investor buying US Treasuries with seven to 10 years maturities, which registered a total return of 2.6 per cent" (Datz: 2008: 84).

fields of investment for many of them. Since financial markets comprise different types of investors "at different stages of the process [of restructuring] opportunities emerge for both the debtor and some of its creditors to strike favorable deals."[58] Crisis, then, can be understood among other things also as "windows of opportunities for some financial players, holding particular assets and/or able to deal with the crisis-affected government in ways that derive gains from public measures to delay or ameliorate economic chaos" (Datz, 2008: 87). Even if an investor does not have that capacity to diversify the portfolio in the mentioned way, the CDS works as an insurance mechanism against default and enables the investor to hedge.

Going back to the vagueness of the concept of "emerging market", it should be added that while the expression denotes, for some, a group of countries liberalising their economies, it also signifies for others a particular group that are admittedly getting stronger in economic terms and "seeking a firmer foothold in the global economy than they presently have" (Das, 2004: 4). Foreign investment supported high growth rates in "emerging markets". The protection of property rights and the implementation of financial reforms in order to sustain the country's creditworthiness are counted as other notable features. To claim, however, that these reforms and the growth rates are subject to the preferences of international financial investors would lead to a partial view of the complex set of relations within the global capitalist accumulation. It is mainly because of two reasons: Firstly, not only the investment choice of financial investors and MNCs but also the commitment of the state managers and domestic business groups to financial deepening and structural reforms should be noted. Secondly, the profit opportunities provided in "emerging markets" as can be seen in sovereign bond yields and income from portfolio investment surpassed the yield in advanced capitalist countries. In our concern the important factor is that the capital flows to "emerging markets" increased significantly until the 1997 Asian crisis. After a brief stop, these inflows

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[58] Financial investors and intermediaries can benefit from financial crises, thanks to time-dependent strategic decision making and the opportunity to take various positions before and during the crises. Goldman Sachs was able to profit from international financial crisis of 2007-2009 because of its CDS writing strategy and betting on the collapse of mortgage market. Despite the exposure of French and German banks to Greek sovereign debt, the prolonged Greek crisis of 2010-2011 offered various moments to financial investors for taking profitable positions and betting on default.

started to increase again as can be seen in the graphs below (the level of capital flows in the aftermath of 2007-2009 crisis are yet to be seen).

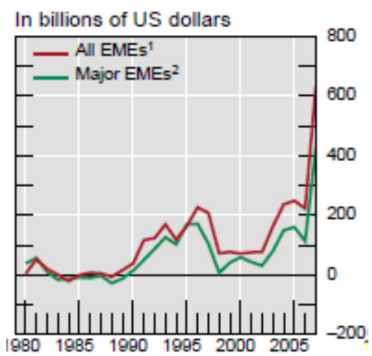

Figure 5. 1.
Net Private Capital Inflows to "Emerging Markets"

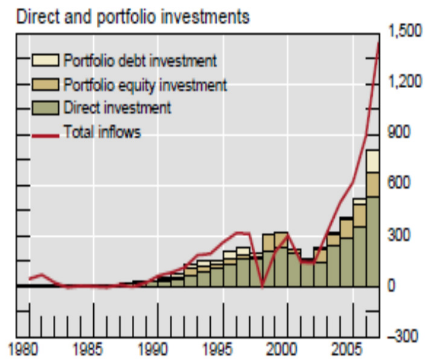

Figure 5. 2.
Gross Private Capital inflows: all "emerging markets" (billions USD)

The first graph (CGFS, 2009: 18) shows not only the private capital inflows to all "emerging markets" (142 countries according to IMF World Economic Outlook 2008 October Database) but also the major "emerging markets"[59], which show that the private capital inflows to "developing world" remain uneven. The second graph (CGFS, 2009: 29) shows that direct investments as well as the portfolio investments increased significantly in the last decade.[60]

During the period of last two decades, there has been a dominant regulation and reform agenda in "emerging markets", which resulted in the financial deepening on the one hand and consolidation of neoliberalism on the other. In Das' words (2004: 19): "the emergence of 'emerging market' economies during the 1980s and 1990s

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[59] The terminology is confusing since IMF refers to all the countries except the advance capitalist ones as "emerging markets", while the term is used to refer to *major* "emerging markets" in financial circles. Argentina, Brazil, Chile, China, Colombia, Czech Republic, Hungary, Hong Kong SAR, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Russia, Singapore, South Africa, Taiwan (China) Thailand, Turkey and Venezuela are considered as major "emerging markets" in the referred study of Committee on Global Financial Stability.

[60] The report derived the data from IMF Statistics. "*Gross inflows* refer to purchases by non-residents of domestic assets less their sales of such assets. Similarly, *gross outflow* measures the purchases by residents of foreign assets less their sales of such assets. Therefore, the **gross** flow measures are effectively consolidated magnitudes which capture the **balance** of all increases and decreases of foreigners' and residents' holdings of domestic and foreign assets respectively. Accordingly, there can be negative reported gross inflows or outflows. *Net flows* are defined as gross inflows less gross outflows." (CGFS, 2009: 29, original emphasis)

was not a fortuitous accident; it was significantly aided and abetted by the domestic and global macroeconomic and financial environment of this period." States played a critical role in the "emergence of emerging markets" as it was of great significance to develop financial markets, make financial actors comply with regulatory norms and create secondary markets for trade in securities and ensure the liquidity of these securities. Financial deepening, in that sense, was a companion as well as the outcome of the process of financial integration of these economies to the global financial markets.

5. 5. 1. Crisis and Volatility

Throughout this process those countries within the group of "emerging markets" faced serious financial crises and volatility. Roubini and Setser (2004: 32) summarise the common sources of financial crises in "emerging markets" by underlining large macroeconomic imbalances (current account deficits) leading to accumulation of large public and private debt stocks and financing these deficits with resort to short-term debt, foreign currency debt and with debt rather than equity. They also mention deterioration of creditworthiness, controlled exchange rate increasing the risk of current account deficit, poor banking regulations, political shocks and external shocks (souring commodity prices, rise of interest rates).

Sachs (1998) in order to simplify the sources of crises in "emerging markets" point out exogenous shocks, policy shocks, exhaustion of borrowing limits and self-fulfilling panic as four triggering mechanisms. Accordingly fiscal, banking and currency crises, though distinct from each other can be caused by such mechanisms and combined in due term.[61]

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[61] These kinds of analyses of the crises in "emerging markets" seem to reproduce the weaknesses of the analyses that classified currency crises in the aftermath of the collapse of BW. The first-generation model suggested that the unsustainable macroeconomic structure would lead speculators to demand payments from the country which would in turn precipitate currency crisis. The second-generation model on the other hand emphasized the changes in beliefs and the possibility of self-fulfilling crises. The Asian crisis had pushed this currency crisis literature to the innate fragility of finance in third-generation models and as seen in Krugman (2003), the scholars started to think of the need for a general theory of financial crisis (fourth-generation) to provide a lucid explanation to the volatility of global financial markets.

Emphasizing shocks, whether exogenous or political and referring to self-fulfilling panic do not provide solid pillars for understanding the mechanisms of privatized credit mechanisms and the dynamics of corporate finance in relation to the changing structure of the international monetary and financial system (Nesvetailova, 2006). Eatwell and Taylor (2000) suggest, instead of static models of crises, an approach based on insights of Roberto Frenkel and Salih Neftçi. Accordingly destabilising market competition spreads the risk in an economy that generates capital inflows. This leads to a change in the balance sheet of the domestic financial system. To understand the instability and cyclical changes, the public and private sector actions should be analysed jointly.

Frenkel and Rapetti (2009) suggest that a developing country Minskyan cycle, which ended in crisis, was observed in many "emerging markets" in the 1990s. Capital account liberalisation in these countries opens wide the arbitrage opportunities, given the predetermined exchange rates. Capital inflow expands credit and supports growth. The real appreciation of the currency leads to increase in imports and current account deficit. The financial system becomes much more fragile. While private sector and financial institutions take risky positions, public sector remains unable to avoid the release of the final episode. This narrative of stylised cycles can be used for denoting the fragility in financially liberalised countries.

Despite the lack of strong evidence that points out the benefits of financial liberalisation, economic policy makers pursued symptomatic treatment rather than dealing with the underlying causes of the boom-bust cycles. For IFIs and market actors it was the political authority, poor regulations and unexpected developments (shocks) in global markets to be scapegoated.

5. 5. 2. Strategies and Surveillance Mechanisms

The policy makers in "emerging market" economies had to pursue particular strategies in order to cope with the new contradictions arising from the process of financial deepening and the access to the international financial markets. Reserve accumulation and inflation targeting (IT) are two prominent ways of attempting to provide a stable economic milieu. Those who succeed are rewarded with higher credit ratings, which would in turn help rolling over private and public debt.

Standard economic theory proposes that a country can adopt open capital account and defend stability of exchange rate at the expense of implementing an independent monetary policy. The "irreconcilable trinity"[62] implies that countries in "fear of floating" have to give up the possibility of pursuing an independent monetary policy. In the case of late 1990s and early 2000s, sudden reversals of capital flows and the experiences of currency crises pushed "emerging markets" to use global liquidity expansion as an opportunity for increasing their foreign exchange reserves. This has resulted in an unprecedented increase in the reserves of "emerging markets".

Obstfeld et al. (2010) mention that reserves of "emerging markets" quintupled since 1990 and exceeded 20 % of the GDP of these countries. Excluding Korea, Taiwan, Singapore and Hong Kong IMF Database revealed that, from 2001 to 2007, international reserves increased $500 billion per year on average in developing countries taken together (Akyüz, 2008: 194). Reinhart and Reinhart (2008: 22) suggest that this is a reflection of the desire of authorities to retain some control over monetary policy and support the stability of exchange rate at the same time. For those who are in search of standard rules of managing economic development, such kind of reserve accumulation is irrational and remains as a puzzle.

There is a considerable amount of ink spilled in search of determining the benchmarks for reserve accumulation. The frequency of the crises of the 1990s and the growing financial instability in the world motivated these efforts. The Guidotti-Greenspan rule (see Akyüz, 2008) formulated as a policy advice in the aftermath of East Asian crises as well, asserted the need for "emerging markets" to have foreign

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[62] "Irreconcilable trinity" or "trilemma" is used for underlining that a country cannot pursue the three conflicting objectives at one and the same time. These are independent monetary policy, stable exchange rates and free capital mobility. They are desired by economic policy makers since independent monetary policy enables the government to pursue suitable policy for domestic economy, the stable exchange rates offer protection to business groups against currency fluctuations and capital mobility enables efficient cross-border allocation of capital. Calvo and Mishkin (2003) suggested that institutional reforms for development of fiscal and monetary institutions are much more important than the choice of exchange rate regime for "emerging markets".

exchange reserves enough to meet their all short-term (those with maturity up to one year) liabilities without any credit extension. Another benchmark used the volume of exports such that it was claimed reserves amounting to three months of imports of the country at hand would be sufficient. From such a point of view, “emerging markets” accumulated excessive reserves during the times when the financial markets were awashed with liquidity.

Those who refer to the sub-optimality of the strategy of reserve accumulation also state the dominance of financial interests. Rodrik (2006) mentions that preferring to accumulate reserves rather than reducing short-term debt may incur a considerable income loss of 1 % of GDP in “emerging markets”. On the contrary, the exposure of many “emerging markets” to short-term debt increased in the 2000s. The subordination to financial interests and not managing capital account in an active manner lead to higher levels of reserve accumulation (Rodrik, 2006: 255). Painceira (2009), from another point of view, emphasized the increase in domestic public debt in many “emerging markets”. Reading strategy of reserve accumulation as a way of transferring resources to developed countries, he claims that financialisation “has meant that developing countries became more heavily indebted internally precisely in order to send capital to developed countries, primarily the USA. This has been the most striking development in global finance since 1997-8” (Painceira, 2009: 10). At the same time, the recycling of these reserves within the international financial markets implies that “the US is converting its liabilities to the world economy into receivables” (Köse and Öncü, 2007: 71).

Akyüz (2008: 183) argues that “destabilizing feedback between domestic financial markets and capital flows are much stronger in developing than industrial countries”. Accordingly, currency crises have severe impacts upon the domestic financial conditions of “emerging markets”. Obstfeld et al (2009, 2010) put this notion with reference to a “double drain”. In times of large swings and capital outflows, it is not possible for the banking system of the “emerging market” to remain unaffected. This possibility of an internal drain provides an extra impetus for reserve accumulation as the central banks of the “emerging markets” may function like a lender of last resort to provide liquidity to the financial system.[63] Reserve accumulation, then appears not as an irrational activity but a need from the point of view of policy makers in "emerging markets". It is a way of not only defending exchange rate in times of volatility but also an insurance mechanism for intervening into domestic financial system.

IT is another strategy for the provision of stability. Since 1990, a growing number of advanced capitalist countries and "emerging markets" adopted IT and declared numerical targets for inflation.[64] In broad terms, IT should be grasped with the transformation of the agenda of central banks and the rise of price stability to the prominence. It is a strategy pursued by monetary authorities in the period of financialisation. While its proponents underline the need for diversity in and sensitivity to economic developments in specific contexts, it serves as a constraint on the monetary authority.

Mishkin (2008: 5) pointed that the numerical target was only a symbol of adherence to monetary discipline and IT had additional elements such as "institutional commitment to price stability as a primary goal of monetary policy; an information inclusive strategy in which many variables... are used to decide the setting of policy instruments; increased transparency of monetary policy strategy... and increased accountability of the central bank". For Batini and Laxton (2006) it is not useful to propose a stringent set of preconditions to "emerging markets", rather the commitment of authorities and institutional change accompanying IT would bring the success of the monetary policy.

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[63] Swap lines were offered by FED to central banks of advanced capitalist countries and four "emerging markets" in the 2007-2009 crisis. The extension of swap lines to those countries to which the US banks are exposed and the *ad hoc* nature of this extension imply that swap lines will not result in a decline of reserve accumulation by "emerging markets" (see Aizenmann, et al., 2010, Obstfeld et al., 2009).

[64] 14 of those countries which take place in the list of "emerging markets" (24 countries) tracked by *The Economist*, adopted IT. These are Czech Republic, Poland, Brazil, Chile, Colombia, South Africa, Thailand, Korea, Mexico, Hungary, Peru, The Phillipines, Indonesia and Turkey in order of the date of adoption. 26 countries in total still declare inflation targets. Finland, Slovakia and Spain abandoned IT after they adopted *Euro* as currency.

For Mishkin (2008) and others alike (see Mishkin and Schmidt-Hebbel, 2001; Ho and McCauley, 2003), "emerging markets" are particularly vulnerable to the financial volatility and exchange rate fluctuations. The contribution of IT to the stability of the economy in that sense helps these "developing countries" face the challenges during the process of integration into the international financial markets. Targeting asset prices and particularly exchange rates in due course may not be helpful as it might deteriorate the performance of IT from such a point of view. The mainstream economic thought and the "irreconcilable trinity" forms the basis of that point since it is assumed that the monetary policy oriented towards the goal of stability is irreconcilable with active intervention into exchange rate.

This assumption, as it is pointed out in their discussion on IT and policy alternatives by Epstein and Yeldan (2008) can be questioned. Accordingly, intervention into capital markets can prove effective and even within the constraints of "trilemma", policy choices exist. Post-Keynesian objection to the overarching emphasis on IT points out the need to target unemployment and the financial instability (Akyüz, 2006; Setterfield, 2006). IT appears as a mechanism of defending financial interests under the guise of economic stability. It is criticised from a Keynesian point of view, as it constraints the discretionary power of monetary authority and results in limited public expenditure which could support productive activity generating employment. It can be claimed that IT turns the CB into an institution explicitly defending the interests of financial sector (see Erdem, 2011). From a Marxian point of view, IT serves as a further pressure upon the real wages of the workers by way of anticipation of low inflation (see Ergüneş, 2010). Despite the econometric studies and reviews blessing IT, as it is shown in the review of Epstein and Yeldan (2008), IT cannot be identified with a positive impact to economic growth and employment levels. It is legitimate, given the macroeconomic record of IT in both "emerging" and advanced capitalist countries, to search for policy alternatives that would focus on employment generation and enable the monetary authorities to channel public investment into fields such as health and education.

Overall speaking, the implementation of IT as a strategy in "emerging markets" appears as a further step in the integration of these to the international financial markets. Associated with low levels of inflation and more stable macroeconomic environment and thus higher credit ratings, IT seems functional for attracting capital flows into “emerging markets”.

It is also necessary to touch upon the effort by policy makers to keep the credit ratings as much high as possible and to use high rated sovereign debt and declined CDS base points as indicators of macroeconomic stability in order to complete the bird eye’s view of strategies we are drawing. “Emerging markets” are in need of funds for investment and present profitable outlets to investors. CRAs played a critical role in this period so much that it is preferred by some scholars to refer to CRAs as the guardians of capital (see Sinclair, 2005). The ratings provided by CRAs are considered as reliable indicators of a country’s macroeconomic situation and willingness for economic reform. The creditworthiness of an “emerging market”, it is thought, can be proved by higher credit ratings. Sovereign default risk, measured by CRAs impact upon the level of capital flows to a particular country. The financial deepening of “emerging markets” and the level of capital inflows are strongly linked from such a point of view.

This has led researchers to analyse the impact of sovereign credit ratings upon the capital flows and the reforms in “emerging markets”. In their review of the contributions to the literature on debt payments and credit ratings as risk measures, Kim and Wu (2008) argue that the studies that point out the need for regulatory frameworks and institutional reforms for financial development should be looked through a lens of credit ratings. The initial level of financial development is crucial for attracting a considerable amount of capital flow, but the ratings themselves strongly affect financial sector development and capital flows. Accordingly, while foreign currency long-term ratings provide a stimulus for international capital flows, local currency long-term ratings influence domestic financial sector development and capital flows in different ways. While improvement in local currency would positively contribute to the growth of market, the reliance on capital inflows may be reduced.[65] Improvement in short-term ratings, on the other hand would influence

[65] Biglaiser and DeRouen (2007) in their study on Latin American countries found that among the reforms implemented in “emerging markets” only trade liberalization seemed to have a significant impact on the credit ratings. Privatization and tax reforms, contrary to the widespread opinion, are not correlated with ratings. Biglaiser and DeRouen (2007) infer from their results that there is an array of

domestic financial markets in a negative way since policymakers can rely on short-term financing under such conditions, which would increase liquidity risks (Kim and Wu, 2008: 20).

The econometric studies on the impact of credit rating upon domestic financial development and the capital flows attribute numeric values to economic developments but they seem to ignore the critical point that credit ratings measure the risk *of* or *in* a market by anticipating developments and evaluating them according to some models. These models attribute great importance to financial stability and the measures taken by sovereign authority. While credit ratings impact upon the policy choices, they are themselves a reflection, though distorted by the models, of the political situation and the policies and strategies pursued by authorities. Reserve accumulation and IT are among such strategies. This two way relation between policy options and credit ratings cannot be easily reflected by one-way causality prevalent in the econometric models. As put aptly with reference to the last decade:

> Not only were bond yields attractive to investors, but the quality of the assets offered by emerging markets also became more palatable. About half the outstanding bonds issued by emerging economies are now rated investment grade, up from about 30 per cent in 2001. That has a lot to do with successful policies to build up foreign reserves, which emerged as a key lesson from the financial crises of the 1990s (Datz, 2008: 84).

Accordingly, the capital flows to "emerging markets" should be explained with reference to the strategies pursued by financial investors and business groups, and the global economic developments. It does not seem meaningful to establish a unilateral causality between the credit ratings and the level of capital flows. Having said this, the role of credit rating agencies and the function of credit ratings should be re-emphasized. The anticipation of the future income and wealth of nations, the evaluation of the policy reforms and measures carry a great deal of importance for financial investors as they need a conduit for measuring the risk. Financing public expenditure and rolling over sovereign debt, in the aftermath of financial

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policy options for "emerging markets" as the ratings and hence the level of capital flows cannot be strongly related to economic reforms other than the trade liberalization. According to them, "emerging markets" are not constrained by financial globalization as Mosley (2006) thought and sovereign authority can find a way to protect domestic interests.

liberalization, condemns sovereign authorities of “emerging markets” to account for policy choices not only to the electorate but also to financial markets. Credit ratings function mainly as a surveillance mechanism and they may impact upon the policy choices of state managers and strategies of business groups. While the policies can be shaped as attempts to provide guarantee for interest-bearing capital in particular and financial capital in general, they are at the same time afflicted by a contradiction between the erosion of productive capacities and the need for maintaining higher rates of GDP growth. As the investor’s faith is not tied to the country whose bond is invested in and the financial innovations enable investors to receive handsome profits even from sovereign default, there is need for a critical understanding of the nexus between the state and financial sphere.

5. 6. Revisiting Theory: Financialisation in “Emerging Markets”?

The theoretical chapter on the literature of financialisation has revealed that the financialisation debate has not elaborated the developments and the ramifications of financialisation in “emerging markets”. Not only the number of studies that deal with it is few, but also the theoretical perspective dominant in the works of many scholars avoids such an extra emphasis (see Becker et al., 2010: 225-226). In contrast to a perception that confines financialisation, either to the Anglo-Saxon countries, or, from a broader point of view to the “advanced” capitalist countries, it is possible to think, in the light of our survey of the process of financial liberalisation and financial crises, that the change of the mode of integration in many “emerging markets” in the 1970s and 1980s paved the ground for financialisation in those economies. If we recall the definition of Epstein (2005:3), this view can be put as such that the financial institutions, actors and motives gained an additional weight in and through the neo-liberal transformation of these economies. To refer to another description, neoliberalism provided the base upon which the financialisation would unfold itself as much as it rested on the imperatives introduced by the financialisation itself, hence the notion of neoliberalism as financialisation (see Fine, 2010). This identification of neoliberalism with financialisation should be complemented with detailed accounts of the state intervention from the inception of financialisation onwards.

It can be recognised, that the financialisation of the “emerging market” economies is handled in different terms. More specifically, the time lag between “international” financialisation and “domestic” financialisation is portrayed in such a way that the financialisation is thought to “embroil” (Lapavitsas, 2009b) these “emerging markets”. From such a point of view, financialisation occurred in “emerging markets” in the mid-1990s and 2000s thanks to foreign bank entry and new regulations as responses to financial instability in the global economy.

Notably, Painceira (2009), within the context of financialisation debate, claims that public domestic debt has increased in these countries; this was a method used by governments for overcoming the foreign debt service problem.[66] Anticipation of currency depreciation, however, raises the domestic interest rates and increases the liabilities that are issued in dollar terms. Since the developing countries were trapped in debt crisis and lenders were not favouring extension of resources, issuing domestic debt or base money remained as the options available to meet the liabilities in many developing countries. Hence the rise of domestic debt was a side-effect of the international political economic developments as much as a choice of governments. Many indebted countries had to transfer a significant part of their revenues in the 1980s to advanced capitalist countries. The main focus of Painceira (2009) is, however on the strategy of reserve accumulation and the fiscal situation in the late 1990s.

Hardie (2008), from another perspective, defines financialisation in simple terms as the increased “ability to trade risk” and deals with the “emerging market” bonds. The empiricism of his understanding leads to proposition of a scale in which the loyalty of the investors combined with an analysis of the deepening financial markets and reforms forms the basis for measuring the risk trade. Intense focus on GDI is because of the fact that these papers dominate the financial markets in Brazil,

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[66] In Turkey, for example, after the end of debt relief in 1984 Turkey’s debt burden increased and the ratio of domestic borrowing to GNP reached to 2,9 % in 1987 from 1,1 in 1980 (Celasun, 1990: 48). As Rodrik (1990) discussed, the creditworthiness of Turkey as a developing country depended on the export earnings and depreciation of the currency was functional. Depreciation however, can be harmful from another point of view. If the foreign currency denominated debt occupies a noteworthy place in the overall public debt, debt service will be much harder because of depreciation.

Turkey and Lebanon. Financialisation, however, occurs if the ability of financial investors to trade GDI is increased, thanks to the deepening of the secondary market.

Lapavitsas (2009b) and Painceira (2009) discuss financialisation with reference to global political economic developments, whereas Hardie (2008, 2011) emphasizes the internal functioning of the financial market and investments. We need both emphases for a comprehensive analysis of financialisation in "emerging markets". Financialisation in economies with relatively shallow financial markets should be grasped in broader terms as a process in which the business groups find another niche for imposing monetary and financial discipline. Financial liberalisation and deepening is considered as critical for substantiating the changing mode of integration into the world economy. Crises and volatility, if alternative projects are neutralised and political coercion supresses critiques, may help in consolidating neoliberal orientation and acceptance of the growing dependence on international financial markets.

Put in general terms, the neoliberal transformation in "emerging markets" did not solve the problem of debt service but provided a profitable field of speculation and financial innovation in which the claims on future wealth of nations are exchanged. Transaction of debt instruments was not limited to the market which would subsequently be built upon "emerging market" bonds. Domestic public debt also played an important role in the deepening of financial markets. Capital account liberalisation made those countries with high foreign and domestic debt ratios vulnerable to capital flows,[67] since major outflows resulted in financial crises and

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[67] The heated debates on NIFA and the financial instability in the late 1990s called attention to further regulation and supervision of financial structure, from a different point of view. The prevalent view was that the financial crises should be explained with the inability or failure to understand the signals sent by the components of financial structure. This perspective was criticised by a growing number of scholars who pointed the necessity of regulation for preventing financial crises and containing their detrimental effects when crises occur. The East Asian crisis (see Wade and Venoroso, 1998) and the debate on post-Washington Consensus (see Öniş and Şenses, 2005) provided a venue for addressing the volatility of finance and questioning the negative impacts of financial liberalisation. 2007-2009 credit crunch and the international financial crisis which turned into a sovereign debt crisis in 2010 had also reinforced the debate on the regulation of global finance. The injection of further liquidity into the financial markets through quantitative easing led to a new wave of capital inflow to "emerging markets". However, tight controls on capital mobility and prudent macroeconomic policy that would take support from restrictive regulation of financial markets seem to remain off the agenda of not only the US but also G20 members (see Soderberg, 2010) which include prominent "emerging markets".

increased the total debt stock as a result of socialisation of the losses of the financial sector.

It is crystal clear that the "emerging market" economies have been experiencing financialisation for a long time, though this may not mean the existence of financial markets reaching the same level of stock market capitalisation or private bond market capitalisation as in the case of advanced capitalist countries. It may not be easy to witness complex derivative transactions in the relatively shallow markets of "emerging markets". Notwithstanding these features, international financial actors have become more important but also the financial actors, operations and the deepening of the financial market itself have gained significance in major "emerging markets" in the aftermath of financial liberalisation wave.

Becker et al. (2010) claim that the "peripheral financialisation" has been observed in many countries thanks to high interest rates and capital flows. Such form of financialisation is not based on securities as in the case of advanced capitalist countries, but results in a similar manner in the erosion of productive investment due to high interest rates. Accordingly,

> In most (semi) peripheral countries, financialisation is critically dependent on capital inflows, but structural outflows may also be observed. Thus policies are geared towards attracting foreign capital through appropriate economic policies. One key feature of these policies is usually a rather rigid and overvalued exchange rate and high interest rates. These policies serve as a temporary guarantee for interest-bearing capital against a depreciation of their assets and for capturing a huge share of surplus. Social forces favouring such policies usually invoke the fight against inflation as a legitimization for these policies. However, such a policy has its own contradictions. The productive capacities are usually eroded. The deteriorating current account results in an increasing dependence on capital imports. External debt soars. When domestic and external financial investors perceive the enormous size of external imbalances capital flows dwindle or give way to outright capital flight (Becker et al., 2010: 229)

As there is no single indicator for a universal definition of financialisation (ibid.) it seems meaningful to talk about the phenomenon and investigate the issue with reference to the "emerging markets" despite the absence of the features associated with financialisation in Anglo-Saxon economies.[68] Increase in the financial assets of NFCs, private consumption and the ratio of household liabilities to GDP in "emerging market" economies as well as the deepening of the secondary markets for transactions of securities, though mostly composed of government papers, provide a solid ground for documenting the growing importance of financial operations in the functioning of the economy and the organisation of political and social life.

5. 6. 1. Commonality and Variegation: Comparison of Cases

Some basic features of financialisation within "emerging markets" have been mentioned above. It seems critical to emphasize that both the capital inflows from the advanced capitalist countries and the desire of national / multinational business groups to benefit from the opportunities provided by financial deepening process paved the ground for financialisation of accumulation in these economies. As stated by Becker et al. (2010: 242):

> Internationally, peripheral financialization has been critically dependent on over-liquidity in the centre. Such over-liquidity and the desire of the financial investors to place money in the semi-periphery existed in both the 1970s and the period from the early 1990s to the current global crisis. However, it has been domestic sectors, especially financial groups, which have pushed for policies favouring financialization as well. Their agenda has been supported by intellectuals closely linked to neo-liberal projects.

Liquidity expansion in the advanced capitalist countries and the strategies or orientations of business groups (domestic sectors) can be counted among the major triggering factors. Nevertheless similar factors lead to different forms and dimensions of financialisation coming to the fore, because of the structure of the

[68] Becker et al. (2010) separate in analytical terms the financialisation of the core economies based on expansion of fictitious capital and financialisation of periphery based on mechanisms associated with interest-bearing capital. They are certainly making a valid point by underlining the differences between advanced capitalist economies and "peripheral economies" (see Güngen, 2010). However, it is not possible to agree completely with Becker et al (2010), because of the use of "fictitious capital" in opposition to mechanisms associated with "interest-bearing capital". The latter form of capital is indeed one element in fictitious capital formation since the capitalisation of the income stream (based on the average interest rate) appears as an abstraction from the sphere of production and in that sense is the "fictitous capital", i.e. "title to value", or the claim on the yield with no apparent link to the productive circuit (Marx, 1991).

financial market, the level of integration with the international financial markets and the position of the respective country within the world economy.

Organisation of corporations in the form of business groups is widespread in "emerging markets". It has been suggested within the literature that this organisational form provide advantages to the capitalists and the underdevelopment of capital markets is a major factor in the ubiquity of such an organisational form, given the absence of institutions to minimize informational asymmetries. Such line of interpretation expects the weakening of diversified structures of economic groups in the aftermath of financial liberalisation, however, the relation between the financial markets and business groups reveal a more complicated pattern (see Khanna and Yafef, 2007). As Yalman stated (2004) the business groups not only in Latin America but also in East Asia revealed similarities in their diversified structures and inclination to engage in speculative activity.

Financial deepening and opening, in such a context, may result in increased opportunity for business groups to hedge risks and engage in financial investment at the same time. Access to finance in international financial markets implies access to cheap sources of finance, used not necessarily for new productive investment. These are the main reasons behind the support by domestic sectors to the policies favouring financialisation. As argued by Ratha et al. (2003) capital account liberalization resulted in heavy dependence on external debt in Latin America and Eastern Europe and corporate debt increased significantly in East Asia. Average profit rate of NFCs of major emerging markets that had an outstanding debt showed a downward trend in the 1990s. Those business groups which had a larger size and access to foreign markets, however, were able to roll over debt and find cheap credits. Although the performance of NFCs in major emerging markets showed varieties, it would be legitimate to claim that the policies favouring financialisation also favoured the large business groups with diversified structures. These policies, however, increased the frequency of crises and made the "emerging market" economies more prone to crisis.

In many Latin American countries, for example, the accumulation of public debt, implementation of structural adjustment programmes and lifting of capital controls in the 1980s and 1990s led to drastic financial crises followed by consolidation of financialisation. In the case of Mexico bank nationalisation and capital controls followed the 1982 debt crisis, but the accumulation of public debt in the 1980s and the securitisation of external public debt under Brady Plan gave their colour to the second slump in the mid-1990s. Capital account was liberalised in Mexico in 1989 and followed by domestic credit expansion. Privatised banks took advantage of liberalisation and borrowed heavily from international markets (see Marois, 2009). Correa et al. (2010) claim that Mexican government pursued a broad financial reform program before the crisis and issued *Tesobonos* specifically to meet the demands of institutional investors. After the crisis, the cost of the socialisation of the private debt and bank rescues reached almost to 15 % of GDP in 1998 (Marois, 2009: 12). The result turned out to be consolidation of financialised accumulation since refurbished austerity programmes included privatization of social security services and the foreign bank entry into the banking sector resulted in channelling increasing parts of the household income into the financial sector.

In Argentina, hard currency regime led to initial success but was followed by rapid appreciation in the second half of the 1990s, of the currency because of its peg to USD. This brought about soaring current account deficit, which was accompanied by a prolonged recession. Since the costs for rolling over debt increased thanks to the emerging market crises of the late 1990s, Argentina faced a situation in which the country was dragged into a no-way-out situation. Argentina became “one of the most indebted emerging countries in the international bond capital markets with nearly half of its total indebtedness being in bonds” (Santiso, 2003: 178). Only after the reordering of political life and the Buenos Aires swap of 2005 (see Dhillon et al., 2006) Argentinian crisis was left behind. Exposure of banking sector to public debt was high during and after the crisis. Consumer credits and credits for private sector investment increased in recent years.

Capital market liberalisation and the export promotion in Brazil in the 1980s resulted in the implementation of an anti-inflationary programme in 1994. The extremely high interest rates and the overvalued currency led to current account imbalances and brought about a severe crisis in 1998. Heavy debt burden of the state stemmed partly from the attempts to socialise the losses and the fact that state bonds were indexed to the US dollar. Brazilian governments had to offer one of the highest interest rates on GDI after the 1998 crisis (Becker et al., 2010). Increased ability of financial investors to exit from and short-sell in Brazilian GDI market was another factor limiting the borrowing capacity of the government and making it less likely to decrease volatility (Hardie, 2011). The commercialisation of pension system and social security services did not go further in the last decade because of the high degree of inequality prevalent in Brazilian society and priority given to the poverty reduction strategies (Becker et al., 2010).

Turkish case resembles to Latin American experiences mentioned above. Either in the form of the accumulation of international liabilities occupying prominent position in Latin American countries such as Argentina or in the form of domestic public debt accumulation as seen in Turkey, the accumulation of public debt was an integral part of financial deepening and the growing share of financial sector within the economy. After the capital account liberalisation in Turkey in 1989, GDI trade became the most profitable activity for domestic banks. High interest rates and the accumulation of public debt provided profitable opportunities to business groups. Turkish economy became much more dependent on capital inflows and revealed swings in GDP growth rates. In the aftermath of the 2001 crisis, consumer credit expansion followed the declining interest rate on GDI. The household debt increased significantly in the last decade, nevertheless the commercialisation of pension system did not advance too far despite hasty reforms.

Commercialisation of pension schemes, securitisation of public debt, housing policies, changing social norm can all contribute to the upswing of financial markets as mentioned by Becker et al. (2010). The social security reforms such as privatization of pension schemes and social policy reforms in general can be effective in channelling part of individual or household income into the financial markets. Becker et al (2010) label financialisation along these lines as mass-based in contrast to elite financialisation in which only a small segment of society and upper classes involve in financialisation. This form of financialisation, symptoms of which can best be observed in dramatic increases in household debt came to prominence in the last decade in many “emerging markets”. In Chile and Slovakia for example, household debt increased significantly and the privatization of the pension systems was crucial (see Becker et al. 2010).

The expansion of the consumer credit market was a salient feature of the neoliberal orientation in Eastern European economies. From a general point of view, the last two decades of economic development for Eastern European countries can be characterised by massive FDI inflows and restructuring of the industry with international linkages. According to Sagemann and Reese (2011: 60) in Eastern Europe, “equally transformative change in the banking sector essentially [broke] the ties with domestic productive sector only to marry with help of enormous inflow of cross-border lending with domestic consumers”. Despite the expansion of consumer credits in countries of the region and steps towards the commercialisation of the social security systems, the heterogeneity in terms of macroeconomic performance, financial deepening, household and public debt ratios makes it harder to claim general tendencies. Czech Republic, for example did not experience a financial crisis despite stock market volatility and soaring public debt. The impact of the international financial crisis was not stronger than the banking crisis of 1997-1998, and the bail-out operations of the 1990s were not repeated. Hungary, on the other hand, with the largest mortgage market among the newcomers of European Union (EU) was hit hard by the financial crisis. The country had to resort to IMF for rolling over public debt in the midst of financial volatility. The major reason for the plummeting GDP growth rates in the “emerging markets” of EU seemed to be the stop of FDI inflows and escape to safer assets in advanced capitalist countries.[69]

The importance of FDI inflows can also be seen in East Asian cases. South Korea has been taken as a model of export promotion and successful industrialisation in East Asia. Symptoms of financialisation, however, can be seen in this model case of development based on manufacturing investment. During the military regime, Korean business groups – organized as *chaebol*s, nurtured and thanks to the suppression of wage labour by the regime, functioned as profitable enterprises through monopolistic practices. FDI inflows started to increase in the late 1980s but

[69] For country cases, financial indicators and an analysis of macroeconomic performance of Eastern European economies, see the volume edited by Jungmann and Sagemann (2011).

the pace of the inflows accelerated before the 1997 crisis. The financial crisis brought about a transfer of assets to foreign capital and further neoliberal reforms, creating a flexible labour market as well as a more polarised society (see Kim, 2010). Accordingly, the East Asian crisis nailed the coffin of former state-capital relations (see Gray, 2011) taken as the model case of "developmental state" by some scholars (see Amsden, 1989). The short-term shareholder gains became much more prominent while the foreign shareholding in the Korean stock exchange increased substantially in the aftermath of the East Asian crisis (Kim, 2010). Korean miracle was also the result of interwoven trade relations in East Asia and the capital inflows for exploiting the low labour costs.[70] But this has produced a pattern in which the pro-cyclical capital inflows increased the leverage ratio of banks and the volatility of the market (Kim and Chey, 2010). Investing in won-denominated high-interest rate securities for arbitrage gains, Korean banks suffered from the appreciation of yen and dollar against won (Westra, 2010). Growing household debt through the neoliberal restructuring in the last decade and stock market volatility during the international financial crisis were recent symptoms of financialisation, but the growth of household debt slowed down before the 2007-2009 crisis.

Despite the mentioned heterogeneity in "emerging markets", capital inflows played a critical factor in the deepening of financial markets. The heterogeneity implied that the performance of the respective economies differed in the face of financialisation. The ratio of financial assets to GDP, the share of financial intermediation in economic activity and the mechanisms through which NFCs involved in financial investment showed across the board varieties. Nonetheless liquidity expansion in advanced capitalist world, capital flows in the form of portfolio investments and FDI inflows especially into the banking sector leveraging the integration of financial markets, practices and norms all had great impact upon the financial deepening and the accumulation in "emerging markets".

[70] The export oriented industry of the economy and the increasingly integrated financial sector made the recent international financial crisis more devastating for Korea. The annualised rate of GDP shrinking reached to 21 % in the final quarter of 2008 (McNally, 2009). The East Asian slump was due to the sudden drops in exports to China and advanced developed world. For an analysis of "the crisis cycle of finance-capital" and capital flows into periphery before and after 2007-2009 crisis see Erdem and Dönmez Atbaşı (2011).

This commonality of factors and strategies of business groups should be taken into consideration together with the policy preferences. In terms of financialisation of the economy, while foreign and domestic public debt and the cost of the socialisation of the losses of financial sector were at the forefront in Latin American countries and Turkey, especially in the 1980s and 1990s; the expansion of consumer credit market was much more prominent in some Eastern European economies. This aspect also started to gain ground in Latin American countries and Turkey as well, thanks to the neoliberal restructuring after the financial crises and economic slumps. This second aspect, which seemed much more striking in “emerging markets” in the last decade, depended on foreign bank entry, the regulations in financial sector and the income levels to sustain the expansion of mortgage market or private pension schemes. The dominance of shareholder perspective and stock market speculation as seen in South Korea can also be noted since, in the absence of a fast expanding consumer credit market or a financial market dominated by GDI, a well-developed stock market may provide financial investment opportunities and pave the ground for financialisation of the accumulation.

5. 7. Concluding Remarks

Post BW period can be divided into some sub-periods with reference to the policy proposals regarding the prevailing discussions. The 1970s until the debt crisis was the recycling of petrodollars and speculative capital. The 1980s and the 1990s can be characterized as the deepening of neoliberalism and Washington Consensus with an increasing role for the so-called institutional investors. The financial crisis of the late 1990s and the post or augmented Washington Consensus provided an impetus for raising objections on the one hand and searching for the possibility of establishing NIFA on the other. Neoliberal reforms and monetary discipline are promoted for providing stability and growing of exports, in the aftermath of international debt crisis “The contradiction of transnational debt” (Soederberg, 2005) remained solid in the post-financial liberalization era. The dependence on short-term capital flows for financing public debt together with the constant search for quick profits in a debt-laden environment (Nesvetailova, 2005) contributed to a plethora of financial innovation at the same time. Policing the indebted countries and imposing the monetary discipline came to be the role of IFIs in this post-BW financial order.[71]

The postponement if not the resolution of the international debt crisis contributed to the formation of an “emerging economies” bond market. It became much more important for many “emerging markets” to comply with the measures and standards of financial markets in due course. Many “emerging markets” pursued particular strategies such as reserve accumulation and IT in the last decades. Reserve accumulation was effective in accumulating huge funds in the hands of central banks to act as a lender of last resort for the financial system and perform operations for price stability. IT is implemented for signalling the adherence of monetary authority to the monetary discipline and to prove creditworthiness to the international financial markets. To have higher sovereign credit ratings, it is thought, would secure not only the debt rollover but also the economy against financial volatilities as the country with higher ratings would easily find new funds when needed. No country, however, can be regarded as a safe haven given the contradictions of financialised accumulation. Policy measures taken for the stability of the economy and monetary discipline contributed to the domestic and global financialisation in the last decades. As seen for example in the attempts for reserve accumulation, the accumulation of dollar-denominated bonds and the US Treasury bills by central banks of “emerging markets” enabled the US to sustain her current account deficit and provide liquidity expansion for the international financial markets. IT, on the other hand, by constraining the activity of central bank to the provision of price stability subordinated social and developmental concerns to the stability of the economy and financial markets in general and monetary and financial discipline in particular. By resorting to international financial markets for debt repayments and new debts, “emerging markets” contributed to the deepening of sovereign bond market and pursued reform agendas that could be marked as warm welcomes for financial investors at the same time. These reforms, strategies and preferences aiming the stability of the economy contributed to the financialisation of the

[71] Debt accumulation became a permanent feature of the global economy and not the emergence of financial crises or the formation of debt-free economies but the containment of the crises and the sustaining debt payments (see Soederberg, 2002) are considered as the issues to be dealt with. This dominant perspective and financial innovation helped the legitimation of the gamble upon the future of nations.

economies and gave their colour to the global and domestic financial instability at the same time.

Political and economic transformation in “emerging markets” contributed to financialisation on two levels: On domestic level the economic reforms along neoliberal lines in order to maintain capital inflows paved the ground for deepening of financial markets and increase of financial assets in the economy. The contradictions strengthened by “peripheral financialisation” (Becker et al., 2010) were contained by state restructuring and political reforms. It was only thorugh the reformulation of state-finance nexus and the *financialisation of the state* that the financial markets kept on generating the prices of assets symbolising the values of future income streams, i.e. fictitious capital, in domestic markets.

On global level the transformation of “emerging markets” widened the profitable opportunities for international financial investors because of high interest rates and high yields of “emerging market” securities. The resource transfer into the advanced capitalist economies, the reserve accumulation itself as mainly the accumulation of claims on future revenues of the U.S. and the debt-driven expansion of global finance are major aspects of global financialisation, in which the neoliberal transformation of “emerging markets” played an essential role.

In this chapter, by giving an account of the process of financial liberalisation, ensuing crises and the discussion on “emerging markets”, I have emphasised the importance of international financial markets, for not only receiving funds for portfolio and direct investment but also debt rollover. The literature on financialisation, however, has swept over the transformation, financial deepening and financialisation within the “emerging markets”. As it is stated, the financial deepening within the “emerging markets” could be considered as a result of global financialisation as much as a contributor to the process. The transformation *within* also implies that these countries experienced financialisation of their economies in due course. State intervention was particularly important in those countries with relatively shallow financial markets and bank-based financial systems. States not only pursued financial deregulation and played a critical role in the consolidation of neoliberalism but also assumed the losses of the financial sector, thanks to the internalisation of the monetarist creed within the state apparatus and the reformulation of the relations between state and financial sector in accordance. In the light of these arguments and the background discussed above, the following chapters on Turkish economy and the restructuring of the state in Turkey in the face of financial crises and debt problem will discuss the dynamics of "financialisation" in Turkey in detail and with a focus on public debt management and restructuring of the state.

CHAPTER VI

FINANCIALISATION OF TURKISH ECONOMY IN NEO-LIBERAL PERIOD: CRISES, FINANCIAL SECTOR AND GOVERNMENT DEBT INSTRUMENTS

6. 1. Introduction

Public finance, it seems appropriate to claim, has been historically the scapegoat in Turkey in times of financial distress. One-sided emphasis on public debt management ignores the relationship between public debt stock, mechanisms to roll over debt and the financial deepening within the economy. Liberalization of economy in the post-1980 period and neoliberal discourse did contribute to the belief that public sector borrowing is responsible for the structural imbalance in the economy. Financial crises are attributed to the high interest rates and lack of creditworthiness due to the public sector borrowing on the one hand, while the "crowding out" effect of borrowing is taken as the reason of staggering manufacturing investment, on the other. It is ironic that institutions blamed for shallow financial markets may be perceived at the same time as the developers of the same markets. The Treasury and the CB in Turkey not only supervised the financial sector but also were themselves the major actors within the process of financial deepening. A close look at the political and economic development in Turkey in the last decades will reveal that it is not meaningful to suggest a simple explanation of the growing importance of financial motives and frequent crises in Turkish economy.

This chapter aims to provide a summary of the developments during the neoliberal period of Turkish economy, analyse the financialisation of Turkish economy and the contradictions arising therefrom. The ramifications of Turkish liberalisation are dealt by resorting to a threefold periodization in the second section. Specific attention is paid to economic growth, crises and investment climate under conditions of liberalisation. The role of GDI and the capital account liberalisation are also discussed. The financialisation of Turkish economy is reviewed with a discussion of stylised facts in the third section. The fourth section elaborates the arguments on financialisation of Turkish economy and the portrayal of the growth pattern in the neoliberal period as speculation-led growth. The fifth section provides a summary of the relations between the state and the business groups in the process of financialisation of accumulation. The chapter concludes with a summary of the main points.

6. 2. Political Economic Developments in Turkey in the post-1980 period

The story of liberalisation of Turkish economy and the process of financial deepening can be started from the year 1980. Past three decades had brought about a major transformation in Turkish economy. In order to explain the liberalization in clearer terms, it will be helpful to divide post-1980 period into three sub-periods. The first one from 1980 to 1989 can be characterised by structural adjustment programmes, export orientation with trade liberalisation and intermittent efforts for interest rate liberalisation. Severe financial and economic crises are comprised in the second sub-period from 1989 to 2001. The domination of bank-based financial system by GDI and the proliferation of non-operating incomes of NFCs in this second sub-period are symptoms of financialisation. The third sub-period covers the post-2001 crisis era. Since the ramifications of the international financial crisis are yet to be seen and this study is written during the second period of Justice and Development Party (JDP) rule this section does not deal explicitly with the last few years. The third sub-period can be characterised by further regulation of banking sector, continuous IMF monitoring and the growing integration of the financial sector with the international financial markets. The periodisation here follows that of Ergüneş (2007, 2008) in her analyses of Turkey's banking sector. Accordingly:

1. 1980-1989 period: Obstacles against the establishment of banks are removed, together with the internal financial liberalization, the major aim was to integrate formerly "idle resources" into the financial system.
2. 1989-2001 period: Liberalization of capital account and the debt dynamics led to financial instability. The fact that many business groups own banks (the number reached to 81) indicates also the existence of fierce competition among these groups.

3. Post-2001 period: Bank rescues. Restructuring of the sector in line with recommendations of IFI. Radical decrease in the number as a result of mergers and acquisitions and elimination of some banks, formerly transferred to Savings Deposit and Insurance Fund (SDIF). Banks owned by global capital are becoming major players.

6. 2. 1. Liberalisation and Structural Adjustment (1980-1989)

There has been a significant change in Turkish economy in the post-1980 period. Not only the quality of the commodities produced by Turkish firms had changed and the markets they were sold had been diversified but also the way the state intervened into the economy underwent a significant change. Liberalization of Turkish economy during these decades was not a smooth process. The trade liberalization took place in relatively early phase of the period. Export promotion was the main tenet of neoliberal economic policy making and the removal of import quotas was complemented by tax rebates and credits to support export-oriented firms.[72] The re-regulation of banking sector took place in several stages.[73] The steps towards financial liberalization were also numerous: the removal of ceilings on deposit and lending interest rates in 1980 was suspended after the brokerage house crisis.[74] The banks could freely determine deposit interest rates only in the aftermath of 1987 regulation[75]; foreign exchange regime was liberalised partially in the mid-1980s and

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[72] This gradual form of liberalization is interpreted as "unorthodox" since the continuation of state's dominating existence in the economy persisted (see Buğra, 2003; Öniş, 1998)

[73] Three major laws can be counted among numerous changes: First one is after the brokerage house crisis by 1985 Banks Act Legislation (law no 3182). Second one comprised the foundation of Banking Regulation and Supervision Agency in 1999 (Banks Act – law no 4389) and finally the Banks Act of 2005 (law no 5411) as part of the post-2001 financial reforms. The explicit aim of recent regulations is the formation of a banking sector completely integrated into the international financial markets (see Türel, 2009).

[74] For a discussion of the initial years of internal financial liberalization see, Atiyas (1990)

[75] The path of liberalization of deposit interest rates was not smooth either. After the first steps in line with the aim of ending financial repression banks signed a gentlemen's agreement in 1980 in order not to raise the interest rates above a certain level. The CB has determined the deposit interest rates until June 1987. See the chronology in Sönmez, M. (2004) for intermittent interest rate liberalization. See also, "Serbest faiz geldi" (1987, July 1) *Milliyet*, Bila, F. (1987, July 7) "Bankalar faiz için Hazine'yi zorluyor", *Milliyet*. State managers intervened into the interest rates also in the 1990s related to the concerns on detrimental effects of high interest rates. See for example, "Faiz

capital account was liberalised in 1989. Steps, that would stimulate financial liberalization process, were also taken in line with structural adjustment reforms: Capital Markets Board (CMB) was established in 1982, auctions for the sale of GDI started in 1985, Istanbul Stock Exchange (ISE) was opened in 1986 and the CB started open market operations (OMO) in 1987 following the establishment of interbank money market in 1986.[76]

Neoliberal form of integration into world economy as opposed to protectionist and developmentalist form was characterised with positive real interest rates, real depreciation of currency, dramatic cuts in the public expenditure, deregulation (and re-regulation) of capital markets and export promotion. Turkey was among the first group of countries in terms of the implementation of "stabilization-cum-structural adjustment" programs from 1980 onwards. These programs included IMF stand-by agreements with medium-term stabilization goals and WB's structural adjustment loans targeting structural changes within the economy.[77] For many scholars, Turkey in the 1980s is mainly characterised with export promotion and trade liberalization (Yeldan, 2006; Eres, 2007, Odekon, 2005). Turkey experienced relatively high rates of growth in the early years of the 1980s, mainly because of the utilisation of excess capacity (Boratav, 2004; Ercan, 2002). The suppression of the real wages and tax rebates for the manufacturing sector were also important.

It can be claimed that the neoliberal taxation policy in Turkey in the 1980s aimed the suppression of domestic demand and providing competitive advantages to export commodities (see Oyan cited in Yılmaz and Tezcek, 2006: 363). The value added tax from 1985 onwards was also accompanied by attempts to reduce the tax burden of private sector. Neoliberal orientation had impact on the composition of tax revenue. The scope of exemption in corporate tax has widened and the ratio of corporate tax within total tax revenue declined gradually in the 1980s (see Yılmaz

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indiriminde özelleştirme hesabı var" (1991, May 25), *Milliyet*, "Faize müdahale geri teper" (1992, November 7), *Milliyet*.

[76] See Akyüz (1990) and Önder et al. (1993) for detailed accounts of the financial system of Turkey and reforms in the 1980s.

[77] Stand-by agreements came to an end in 1985 but Turkey continued to receive structural adjustment loans of WB until 1988 (see BSB, 2008 for long-term analysis of relations)

and Tezcek, 2006: 367).[78] While the direct taxes composed 62 % of total tax revenue in 1980, the ratio declined to 40 % in the second half of the 1980s (Yılmaz, 1996).

GDP increased 6,9 % a year on average between 1984 and 1987.[79] The share of public sector in manufacturing declined throughout the 1980s and the public investments were directed to infrastructure (Şenses, 1995). The "managed export promotion" (Eres, 2007) era or the period in which the major theme was the "internationalization of commercial capital" (Ercan, 2002) has come to an end in the late 1980s.[80]

The use of "Convertible Turkish Lira Deposits" (CTLD) in the 1970s proved costly for the government and was a factor contributing to the rise of public debt (see Celasun and Rodrik, 1989) in the 1980s. The principal payments of the CTLD liabilities, consolidated in 1979, began in 1984. As the CB socialised these liabilities, it was not the commercial banks, but the public who would pay the accumulated debt. As one of the first countries in which the stabilisation-cum structural adjustment policies were implemented Turkey received important amounts of foreign credit in the first half of the 1980s. The inflow of funds has lengthened the maturity of foreign debt for a few years. After the end of debt relief, the basic conditions for a debt trap emerged gradually.[81] The financial support given by creditors has decreased dramatically in the late 1980s (Türel, 2000). It was expected

[78] See http://www.gib.gov.tr/fileadmin/user_upload/VI/CVI3.htm for the ratios between 1988 and 2011. Accordingly, the ratio of corporate tax within tax revenue declined to 10 % in 1990 and 7 % in 1993.

[79] The average is recalculated according to the harmonised GDP by expenditures at 1998 prices. After the introduction of new series (1998 prices) not all indicators (of pre-1998 period) but some have been recalculated by TURKSTAT according to the new series. The figures are taken from the Ministry of Development Economic and Social Indicators 1950-2010, based on the data of former State Planing Organisation and TURKSTAT. See http://www.dpt.gov.tr/Kalkinma.portal.

[80] Gültekin-Karakaş and Ercan (2008) maintain that the formation of international connections and the use of international networks and markets for the expanded reproduction of capital can be analysed by using a fractional approach. The export orientation and the use of sale and distribution network were particularly important in the 1980s. The commercial activities were much more important for Turkish capital groups than increasing their international competitiveness, which required time-dependent strategic decisions.

[81] Emergent public debt trap was visible in the 1980s. See the pieces, "Borç ödemek için yeni borç arıyoruz" (1984, December 10), *Milliyet*; "Devlet borç için borç alıyor" (1985, June 25), *Milliyet*; "Faiz bütçeyi kemiriyor" (1986, May 9), *Milliyet*, "Hazine borç girdabında" (1986, December 30), *Milliyet*.

that the Turkish economy would be able to transfer capital to lender countries and since most of the foreign debt was public debt, it necessitated the restructuring of public finance to overcome the problem. Despite the fall of Public Sector Borrowing Requirement (PSBR) in significant terms during the first half of the 1980s, there was no such improvement in tax income of the state. The ratio of PSBR to GDP (1998 prices) was 3,5 % on average between 1984 and 1987. It reached to 7,5 % in 1991.[82]

The increase in interest payments of domestic and external debt in the second half of the 1980s led to an increase in the PSBR. Akyüz and Boratav (2003: 1551) maintain that PSBR increased mainly because of the reversal of wage policy and the premature liberalization of financial markets. This is also dubbed as the political limit of export-orientation based on repressive wage policy and increased cost of financing public deficits in the face of subjection to market rules. The lax attitude of the state in the area of taxation (Yeldan, 2006) contributed to the rise in borrowing requirement ratio. Capital account liberalization was the remedy according to monetary authorities as it would enable financing the public deficit without draining the funds in the hands of Turkish private sector (Akyüz and Boratav, 2003: 1551) and also boost investment by imposing financial discipline. Akyüz (1990: 110) claims that the decision to raise new debt in the domestic market while resorting to the CB less and less has led to dramatic increase in the interest payments on domestic debt.[83] This led to a debt spiral in which the higher interest payments decreased government savings and higher deficits resulted in more public debt.

The economic crises in Turkey during the neoliberal period can be seen as the ramifications of the structural adjustment and liberalisation policies. As it is mentioned above, the borrowing requirement of the state has increased and it became much more difficult to roll over external debt in the late 1980s. Aydın (2005) defines the situation as the fiscal crisis of the state and the loss of autonomy

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[82] The figures according to old series (1987 prices) are much higher despite the ratio is calculated according to GNP. In the Economic and Social Indicators 1950-2006, the average ratio between 1984 and 1987 is 4,7 %. It increased to 9,9 % in 1991.

[83] It was estimated that half of the new funds accumulated by the banking sector were invested into GDI in the first five months of 1989. See "Bankalar iç borçlanma maşası olmaya devam" (1989, June 17), *Milliyet*.

in economic policy-making. The troubles of the economy were also the subject matter of the evaluations by IFIs. In the late 1980s the World Bank (1990), on the one hand gave praise to the fundamental change in economic orientation and export promotion, while on the other pointed out the growing troubles in the debt service.

Rodrik (1990, see also Celasun and Rodrik, 1989) argues that the government faced some dilemmas in the 1980s given the adjustment path. The creditworthiness of Turkey depended on increasing export revenues. Real depreciation of Turkish lira helped Turkish firms increase their competitiveness. Exchange rate policy, however, meant an imperative to increase primary surplus for government dealing with the transfer problem. In other words, "holding the real value of foreign debt constant … requires a corresponding rise in the real primary surplus whenever the real exchange rate depreciates" (Rodrik, 1990: 189). In addition the process of financial liberalisation condemned government to offer higher yields for government securities to guarantee the financing of the public debt, because of the competition with foreign assets. The rising public debt and expectation for real depreciation pushes the domestic real interest rate higher than foreign real rates (Rodrik, 1990: 193-194). These dilemmas, indeed point out the disadvantages faced by governments striving to roll over public debt in a liberalised economy. Most of the public debt of Turkey was external debt in the 1980s. The promotion of export by currency depreciation and subsidies made it more difficult for government to service foreign debt (Celasun and Rodrik, 1989).

The bank-based financial system of Turkey has witnessed an increased dominance of commercial banks in the 1980s. Akyüz (1990: 106) maintained that non-bank financial institutions (NBFIs) were used to provide investment finance and their declining importance at that time indicated a shift from long-term investment finance to short-term commercial loans. The ratio of broad money (M2) to GDP, which is taken as one of the basic measures for financial deepening, declined slightly in the late 1980s (Ministry of Development Economic and Social Indicators – ESI, 1950-2010).[84] The sight deposits, time deposits and currency in circulation

[84] This was a temporary phenomenon and the ratio of money supply to GDP increasd dramatically in the late 1990s and the first decade of 21st century.

(components of M2) constituted most of the stock of the financial assets. The share of private bonds and equities within the stock of assets declined considerably. This shows that equity finance was not preferred by firms and private bond market did not develop. Akyüz (1990) stated that firms were unwilling to give necessary information to CMB for being authorised to issue bonds. Besides, the preferential treatment from banks and/or the interlocking ownership made it a preferred way to resort to banks for funds (Ergüneş, 2008).

Domestic borrowing gained significance starting from the mid-1980s since the public sector had to contain the external debt after the end of relief. Yalman (2009: 287) mentions that opting in domestic debt for containment of external debt was justified in terms of monetarist creed with reference to the changing mechanism of debt financing. The need to rely on financial markets rather than the CB was referred to as a legitimating factor. This, however, should not be seen as the withdrawal of the CB in the mid-1980s from financing the public sector.[85] Akçay (2009: 202-205) states that the formation of a public debt market and the interbank money market should be seen as the shift to another mode of financing in which the the banking sector (commercial banks) plays an intermediary role.

The ratio of total financial assets to GDP (1998 prices) revolved around 25 % in the late 1980s.[86] Public securities comprised most of the securities in this sub-period. As of 1989, despite the sharp increase in the volume of private securities, public securities still amounted to 66 % of total securities. The gradual end of "financial repression" in the 1980s led to "drastically increased short-term indebtedness of the public and corporate sectors without achieving a tangible improvement in the size and allocation of domestic savings" as mentioned by Akyüz (1990: 126). Under

[85] Concerns on the use of short-term advances increased in the late 1980s. See for example, "Avans ve borç batağı" (1987, November 5), *Milliyet*; "Hazine borç batağında" (1988, April 1) *Milliyet*.

[86] Once again, it is not meaningful to compare the figures calculated according to the new and old series of GDP. Nevertheless the trend within the indicators calculated according to different series enable us to claim that the ratio of total financial assets to GDP increased significantly in the 1980s (see also Ministry of Development Economic and Social Indicators 1950-2006).

such circumstances capital account liberalisation strengthened the contradictions.[87] It paved the ground for a significant increase in the yields of financial instruments.

6. 2. 2. Capital Account Liberalisation and Crises (1989-2001)

GDP growth showed an erratic pattern in the 1990s (see Figure 6.1). The economy contracted significantly in 1994, 1999 and 2001. Production in manufacturing sector declined substantially in crises years. Inflation rate has reached to three digit levels and the depreciation of TL continued with a greater pace than ever. Concerning the political and economic instability in the country, it can be argued that the lost decade of Turkey was 1990s in contrast to those of Latin American countries dealing with sovereign debt crises and low levels of growth in the 1980s.

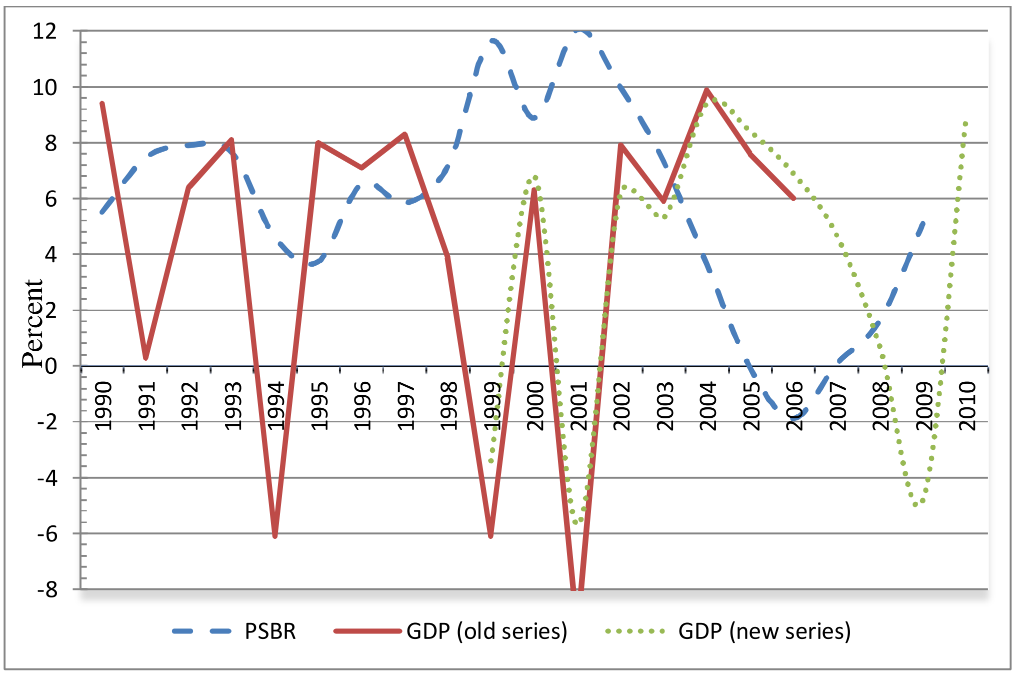

Figure 6.1. GDP (old and new series) growth rate and the ratio of Public Sector Borrowing Requirement to GDP

Source: TURKSTAT, Ministry of Development (1950-2010 Economic and Social Indicators)
Note: Ratio of PSBR is recalculated according to 1998 base year GDP (new series)

[87] The decision for the capital account liberalisation escalated the fear of crisis. Representatives of the manufacturing sector and state managers argued in front of the public on various occasions about the possible effects of the capital account liberalisation. See “Karşılıklı rest çektiler” (1989, August 23), *Milliyet*.

McKinnon-Shaw hypothesis and the "financial liberalisation thesis", which were mentioned in the fifth chapter, identify financial liberalisation with higher investment ratio and the provision of funds necessary for productive activity. The rationale for the liberalization of capital account is that free capital mobility will be rewarded with effective distribution of resources and lead to a shift from unproductive use to productive use such as fixed capital formation. The end of financial repression was expected to bring about higher rates of economic growth in Turkey as well. Nevertheless the experience of Turkey does not conform to the mentioned hypothesis (see Yülek, 1998). Odekon (2005) underlines that the real GDP growth rate of Turkish economy was slightly better than the average of developing countries between 1983-1992 and much worse between 1993-2000 when the effects of financial liberalisation were seen. This erratic growth performance of Turkey was interpreted by many with an emphasis on the role of speculation and capital inflows. Akyüz and Boratav (2003) mentioned that there had been an unprecedented level of economic instability because of financial flows (see also Boratav, 2004). Yeldan (2006: 200) uses the term "speculation-led growth" to point out that "sources of growth originated not from domestic capital accumulation but from the ad hoc and often irrational [decisions] of foreign (speculative) financial capital". Finance was elevated to a position higher than real economy. S. Sönmez (2009) defines the pattern of economic growth as one that is based on financial accumulation and speculation. The picture drawn by these scholars underscore that there was a preoccupation with the financial assets rather than higher levels of productive investment in the era of post financial liberalisation. In our concern, this preoccupation should rather be labelled as financialisation.

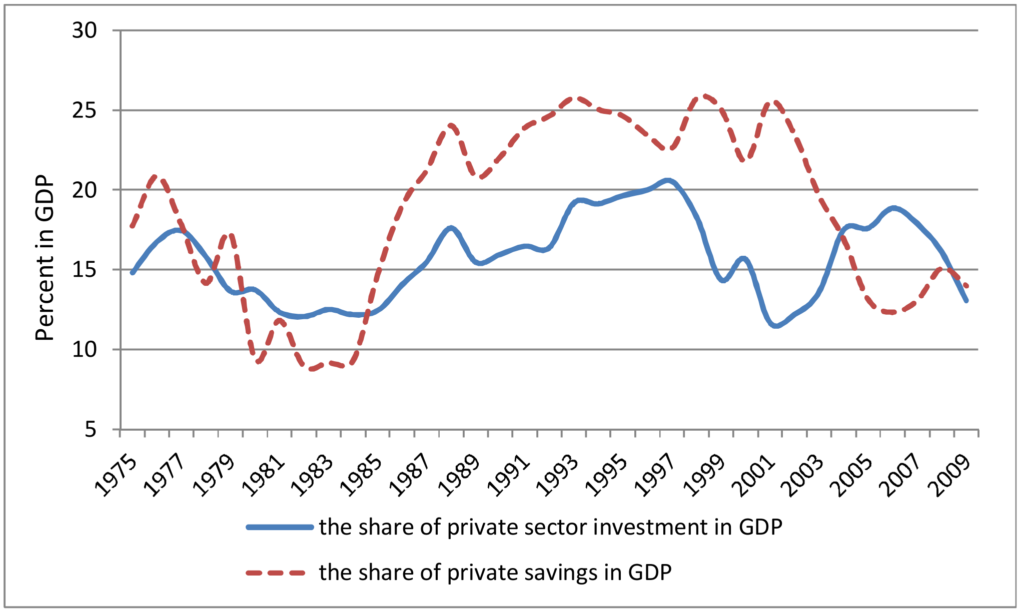

Figure 6.2. The Shares of Private Sector Investment and Private Savings in GDP
Source: Ministry of Development Economic and Social Indicators 1950-2010

It is documented that before capital account liberalisation, during the "managed export promotion" era, the former excess capacity was utilised (Boratav, 2004). This can well be interpreted as the reproduction of industrial structure identified with import substitution era in the 1980s (see Yalman, 2009). Capital account liberalisation did not give way to expected transfer of savings to productive investment either. The share of private manufacturing investment in GNP in post-1980 period of liberalisation is lower than the 1970s (see Gezici, 2007). The decade after capital account liberalisation shows a further decline on average. It should be also noted that the composition of private investment has changed and housing sector took the lion's share of private investment whereas the manufacturing and agriculture declined in the 1980s (Yülek, 1998). Odekon (2005: 72-73) maintains that despite the increase in financial instruments in the post-1980 era, "the extent to which this increase has contributed to private capital formation in the manufacturing sector is ambiguous". From a point of view alternative to the mainstream financial liberalisation arguments, the growing variety of instruments and the stock market seem to contribute to speculative financial operations rather than physical capital formation (Odekon, 2005).

This dependence on inflow of funds and the high interest rates of GDI in Turkey were characteristics of this sub-period. The non-operating incomes of major industrial firms also increased significantly in the 1990s (see Table 6.1.). The economy revealed swings throughout the 1990s depending on the ups and downs of capital flows (Akyüz and Boratav, 2003: 1552). The inflow of financial capital to liberalised economy leads currency overvaluation paving the ground for current account imbalance. Concerns for the sustainability of the current account deficit and the budget deficit may lead to capital flights which will bring about credit crunch and stock market crash (Aydın, 2005: 108-109). This path assures that the liberalised "emerging market" economy becomes indeed dependent on the inflow of capital. The inflow of funds supported growth and increased arbitrage opportunities at the same time. The fragility of the system in Turkey increased substantially in the 1990s and the economy became prone to crises in the aftermath of capital account liberalisation.[88] In the words of Yalman (2004: 21):

> [T]he process of financial liberalisation seemed to have the dual effect of driving the funds away from productive investments and strengthening the position of the commercial banks, and *ipso facto* of the groups, by making them the key agents of the money markets in general and the foreign exchange market in particular. This would in turn, indicate the presence of social forces that had a direct interest in the appreciation of the real exchange rate, as it entailed cost reductions for those industries dependent upon imports of raw materials and intermediate goods. It would also reiterate the Turkish bourgeoisie's traditional resistance to the idea of an adjustment based on devaluation since a return to a policy of higher exchange rates would have caused havoc particularly among firms and/or banks which have exploited the differentials by borrowing cheaply abroad.

The cost of domestic borrowing increased substantially in Turkey in the second half of the 1980s. As it is pointed out the conditions of a debt spiral was already existent in the period (Önder et al. 1993: 160). Unable to overcome the external debt service problem referred to above (the transfer of resources to the creditors in WB terminology, see WB 1990), governments had resorted to domestic borrowing at higher costs and capital account liberalisation under such conditions consolidated

[88] Boratav (2011) narrates the story of dependency with a focus on net resource transfers. In his account, liberalisation of capital account changes the starting point of the transmission links in terms of the relations between growth and external sources and the process starts with capital inflows.

the tendency of banks to finance public debt (see S. Sönmez, 2009).[89] Since there was no attempt for widening the tax base and increasing the ratio of taxation from financial operations[90], the increase of public domestic debt was accompanied by declining maturity of debt instruments throughout the 1990s.[91]

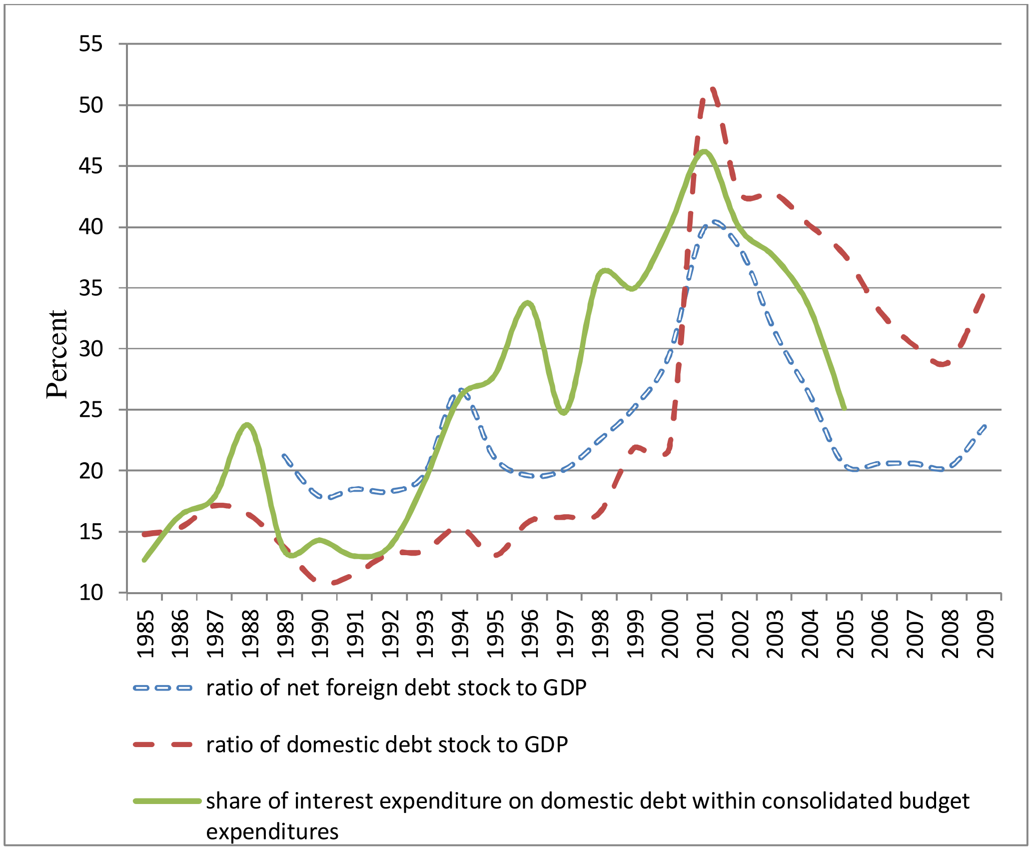

Figure 6.3. Net Foreign Debt Stock, Domestic Debt Stock and Interest Expenditure on Domestic Debt

Source: Undersecretariat of Treasury (UT, 2010)
Note: Ratios are recalculated according to 1998 base year GDP (new series)

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[89] See "Bankalar tahvile boğuldu" (1990, January 22), *Milliyet*; "Bütçeye yama bankalardan" (1991, June 18), *Milliyet*. "Hazine bonosunda hızlı artış", (1993, June 5), *Milliyet*.

[90] On the contrary, changes in the tax code were explicitly favouring the lender, the money-owner or the financier. After the 1994 crisis, among the first measures explained by Çiller government was the removal of formerly halved tax on bond trade. See "Çiller piyasaya yenildi" (1994, January 27), *Hürriyet*. 1998 tax reform aimed redistributing tax burden (Türel, 2000) but did not bring a fundamental change in terms of propensity to borrow rather than taxation. Also in the aftermath of 2001 crisis, through legal change and exemptions, significant gains from bond trade and interest rate remained untaxed.

[91] The desperate situation of policy makers and state managers can best be observed in the declarations of then Undersecretary of Treasury Tevfik Altınok. See "Hazine müsteşarı iflas eden şirket patronu gibi konuştu" (1993, January 23), *Milliyet*.

The rise of the cost of domestic borrowing was complemented by the rise in the total foreign debt stock. From 41,751 billion USD in 1989 to 113,592 billion USD in 2001, the rise in total foreign debt stock indicated the importance of the capital inflow for the economy as a whole (see S. Sönmez, 2009). The share of public debt in foreign debt stock started to decline only in the 1990s, however this should be understood in the light of the short-termism of domestic debt management mentioned above.[92] In addition, the resort of Turkish firms to foreign financial resources signified the growing dependence of Turkish capitalism on foreign credit and capital inflows (see Yalman, 2009). It should also be noted that assuming the losses of the financial sector, resorting to IMF funds and opening credit lines increased the ratio of public debt to GDP in the aftermath of crisis periods, which were followed by attempts to decrease the ratio. Therefore, in the 1990s and the first decade of 2000s, the trend of the ratio of public debt in foreign debt stock revealed a camel's hump, the peak point of which coincided with the subsequent months after the crises.

Ekinci (1997) provides a summary of the link in Turkey between public deficit and hot money inflows.[93] Accordingly the rate of interest on domestic debt has to equal interest on FX-assets plus the expected rate of depreciation of TL. Given the capital inflows, the rate of depreciation will be less than the difference between rates of interest mentioned. Real appreciation of the currency will impact on the current account deficit which is being financed by capital inflows. This explanation does not assume that increasing public debt will automatically result in hot money inflows. Nevertheless, it summarizes the Turkish experience and the growing amount of short-term debt in the 1990s. Public deficit has been financed by short-term debt and *via* private sector in the 1990s (Ekinci, 1997: 165).

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[92] UT had to issue T-bills rather than bonds in the mid-1990s and the maturity of debt instruments could not be increased for a long time, see "İç borçta 1 yıllık vadeye doğru" (1995, February 11), *Milliyet*. It was also painstaking for the Treasury to attempt to increase maturity through repurchase auctions against the background of high interest rates and permanant volatility, see "Hazine geri alamadı", (1997, August 19), *Milliyet*.

[93] The analytical framework of Ekinci (1997) is based on such an equivalence: GNP (Y) = Wages + Profit (II) + Taxes (T) = Consumption + Investment (I) + Public Expenditure (G) + Current Account Deficit (X-M). Assuming equality between wages and consumption $II / Y = [I + (G - T) + X - M)]/Y$, this implies that an increase in public expenditure (ceteris paribus) will positively impact on the ratio of profits to GNP.

S. Sönmez (2009: 45) notes that the arbitrage gain from T-bills reached to 17, 4 % in the early 1990s.[94] The dynamics of financial crisis was set on in the 1990s as the interest payments of public debt conjoined by rising public expenditure made the government seek short-term borrowing with high risk premium.[95] Boratav et al. (2001) define the debt policy in the 1990s with reference to Ponzi scheme in which the borrower has to borrow more and more to meet liabilities:

> The underlying characteristic of the domestic debt management was its extreme short-termism. Net domestic borrowings, as a ratio of the stock of the existing debt, hovered around 50% before the 1990s. This ratio increased to 105% in 1993, indicating that each year the state had to resort to new borrowing exceeding the stock of debt already accumulated. In 1996, this ratio reached to 163.5%. Thus, the public sector has been trapped in a short-term rolling of debt, a phenomenon characterized as *Ponzi-financing* in the fiscal economics literature. For this scheme to work, however, domestic financial markets required the continued inflow of short-term capital inflows. Thus, the episode of hot money inflows should be interpreted, in the Turkish context, as the long arm of fiscal policy, overcoming credit restraints and monetary constraints of the monetary authority. (Boratav et al., 2001: 353-354)

Monetary authority had no other option but to offer high yields for GDI under the conditions of financial liberalisation in order to make this Ponzi scheme work.

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[94] Then prime minister of Turkey Tansu Çiller explicitly underlined this arbitrage gain: "There is a vicious cycle in Turkey. It should be broken... In this system, some people bring in dollars to invest into government securities. Then they turn it into currency and carry abroad, they buy foreign exchange, then bring it again, profit from interest rates, take it back to abroad. This is so easy and comfy." in "Nasıl faiz vurgunu yapıyorlar?" (1994, March 13), *Milliyet*. It is ironic that Çiller was the card-carrying disciple of neoliberal dogma and the UT had to offer highest interest rates on GDI, of the 1990s, in her term.

[95] The rise in the PSBR in the late 1980s and early 1990s is attributed to populist policies of the governments seeking to consolidate their support in conditions of party competition (cf. Boratav, 2004). The increase in the real wages, however, in the early 1990s could not be interpreted as transfer of income from upper strata in the name of defending the rights of people. In other words, it does not seem proper to signify this brief period in which the public sector workers and officials, together with the organized sections of the working class, enjoyed compensation of the past decrease in real wages; as a reflection of populist political project which posits people against the power bloc. For various uses of the term and comprehensive discussion of the concept of populism see Laclau (1977). The "populism" of government should be understood as an attempt to contain the working class in a similar way to those countries that could not cut public expenditures in the 1970s because of the need to moderate public unrest. As Cleaver (1989) discussed, the debt crisis of the early 1980s could be read through a lens of class struggle by pointing out the attempt of the so-called less developed countries to contain class struggle. The credit expansion in the international financial markets had facilitated the use of funds by these countries whilst at the same time condemned them to a debt spiral that will lead to *decada perdida* because of the interest payments and unshakable belief of IFIs in the guilt of debtors as they deviated from the righteous path of sanctified market forces.

Trying to borrow long-term and striving to impose an interest rate upon the public debt market would not work as long as the public sector was in need of funds from financial sector for financing public expenditure. 1994 crisis can be explained along these lines. During the autumn of 1993, government decided to lengthen the overall maturity of debt instruments, since the high interest rates and the shortened maturity signalled an impasse for the Treasury. Turkey relied on foreign resources during the autumn and winter of 1993 while Treasury cancelled Treasury bill (T-bill) auctions over and over again. As long as money to finance the interest payments and budget deficits could be found, at least it seemed so, Treasury would insist on borrowing long-term.[96] Government relied on CB advances in the last months of 1993 and expressed the inclination to decrease the interest rates on domestic debt (Özatay, 2000; 2011). Despite the plans of Çiller government, banking sector refrained from investing into government bonds and the rollover risk increased.[97] The Treasury used the CB resources, which *ipso facto* led to depreciation of TL because of liquidity injection (Binay, 2003). It was estimated at the time that Turkish banking sector had an open position amounting to 4,5 billion USD and representatives of the sector were not in favour of rapid depreciation of currency.[98] Credit rating agencies such as Moody's and Standard & Poors reduced the credit rating of Turkey in mid-January, because of public deficit and economic instability. This led to devaluation of TL more than % 13 on 26th of January. Treasury had to give away her particular policy preference and stick to high interest rate T-bills. In the aftermath of financial volatility, government launched an economic austerity programme on April 5th. It was only in the summer of 1994 that financial volatility in bond market was left behind. The cost of borrowing however, increased significantly (see Özatay, 2011).

The crisis of 1994 which resulted in further depreciation and recession in the same year is usually related to either the macroeconomic imbalance of the country and structural problems such as increasing debt burden or the "policy mistakes" made by Çiller government (see, Özatay, 2000, 2011, Yentürk, 1999). These policy

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[96] See "Osman Ünsal Japonya'dan ateş püskürdü", (1993, November 13), *Milliyet*.

[97] The discussion on increased taxation of income from government bonds, it was claimed, led further volatility in the bond market, see Kutlay, M. (1993, December 24), "Bono Paniği", *Hürriyet*

[98] Berberoğlu, E. (1993, November 15) "Sen Çok Yaşa Osman Paşa", *Hürriyet*

preferences are named as “mistakes” since the government did not comply with the so-called rules of the market.[99] Indeed even if we take into consideration the cancellation of debt auctions (that are dubbed as policy mistakes) before the crisis, or the threat of cancellation of debt auctions by members of Refah-Yol coalition government after 1995 elections (see Somçağ, 2007) it should be acknowledged that the characteristics of debt management remained the same in the era of financial liberalisation.[100] That is to say, the increasing debt burden and financing public deficit by offering extraordinarily high interest rates were the root causes of the crisis. Government preferences and declarations by various members of the coalition governments in the 1990s do not mean that there was a policy reversal. The shift in the policy of debt management started in the 1980s. Relying on domestic money and capital markets was the basic component of this shift, though putting an end to the use of CB resources could not be achieved until 1997, within the policy implementation process.

More than half of the tax revenue was allocated to domestic debt interest payments in 1996, 1998, 1999 and 2000. This however, did not bring about a decline in the domestic debt stock, whose ratio to GDP continued to increase until 2002. The share of interest expenditure on domestic debt within consolidated budget expenditure was also increasing (see Figure 6.3.). Turkey was expected to put her house in order and realize debt service in the late 1990s. Allocating most of the tax revenue to interest payments and giving primary surpluses in the second half of the1990s (Cizre and Yeldan, 2005: 397) was not sufficient to avoid economic slump and debt trap. In order to minimize the debt service problem *Staff Monitoring Agreement* with the IMF was signed in 1998. It was declared within the addendum that this agreement would serve as a bridge to a three year stand-by agreement starting from January 2000. 1998 agreement included fiscal targets and the government’s commitment to

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[99] The terminology of “policy mistake” comes from the neoclassical development theory. For a critique see Burkett (1987).

[100] Regarding the long-term nature of policy making, I prefer to emphasize the continuity of short-termism and the Ponzi finance prevalent in debt management. Despite the inclination of the then prime minister Necmettin Erbakan to use monetisation, it was not realised and the dynamics of debt management did not change. See “Faiz patladı Refahyol çatladı” (1996, July 16), *Milliyet*; “Borçlanma durduruldu” (1996, October 15) *Hürriyet*; Şener, N. (1996, September 29) “Refahyol faize yüzde 10 stopajı rafa kaldırıyor”, *Milliyet*; Şener, N. (1997, March 26) “Faiz Erbakan’ı dinlemedi”, *Milliyet*.

decrease inflation. It also included political commitment to the reforms within the fields such as banking sector regulation, social security system, international arbitration, agricultural supports and privatisations (see BSB, 2006). The numerical targets were revised in 1999 under new coalition government. As a sign of the continuity of the dependency on the capital inflows, the new disinflation program of the IMF (2000-2002 stand-by) limited the monetary expansion to the increases in the stock of foreign assets. This meant that the liquidity needs could only be met as long as the capital inflow continued (see Yeldan, 2006). This exchange rate based disinflation program, however stimulated capital inflows and appreciation of currency, whilst the current account deficit continued to grow.

The GDI yield in the aftermath of capital account liberalization provided a mechanism of income transfer from the society at large to bank-owners and conglomerates. Even before 1989, however, the place of GDI within the financial sector was important. Ersel (1990) maintains that the securitised government debt was increasing throughout the 1980s and trading in secondary markets was concentrated on government securities. Banking sector held most of these debt instruments although the fact that banks were placing orders also as intermediaries, on behalf of their clients, on these securities should not be ignored. Financial liberalization process has consolidated the strength of banks and GDI trade became the major activity of commercial banks in the 1990s. Çimenoğlu and Yentürk (2005: 96) by recurring to the popular terminology of "shallow financial market" in Turkey maintain that it was not possible for the financial system to finance public sector without creating an effect of crowding out.[101] The funds needed by private sector were lent to state and rentier activities became the hallmark of economy, from the crowding out perspective. The problem with such an understanding is that it assumes homogeneous sets of firms. The ability to access finance as well as the organisation of business groups reveals differences. Besides, the financial market, despite its relative shallowness as in the case of Turkey, can still provide venues for the valorisation of capital. From a broader perspective it can even be posited that the financial discipline imposed for the deepening of market and the provision of

[101] See also the report of Selçuk and Rantanen (1996), sponsored and published by TÜSİAD (Turkish Industry and Business Association)

liquidity of financial assets make it easier for particular business groups to compensate their losses. In addition, the characteristic of business groups in Turkey (see Yalman, 2004) and the use of improper banking practices made it easier to transfer the resources to "real sector" (see Ergüneş, 2008), accumulated through the lucrative business of investing in GDI. Turkish experience can be understood at first sight, as a case in which the shallow financial market and high public debt ratio led to crowding out of the private sector. Nevertheless it seems proper to emphasise that the private sector avoided productive investment and profited from the gradual financial deepening *via* public securities since GDI offered higher yields. In any case, when looked at the particular indicators such as financial assets and securities one can denote significant financial deepening in Turkey in the post-1980 period (see Gezici, 2007). The ratio of M2 to GDP remained stagnant in the 1990s (ESI, 1950 – 2010). However, the ratio of total financial assets to GDP (new series) has reached from 31,5 % in 1990 to 64,3 % in 1999 and to 99,2 % in 2001 (ESI, 1950 – 2010) as a result of crisis and attempt to bail out banking sector (the value of public securities at current prices almost quadrupled in 2001).

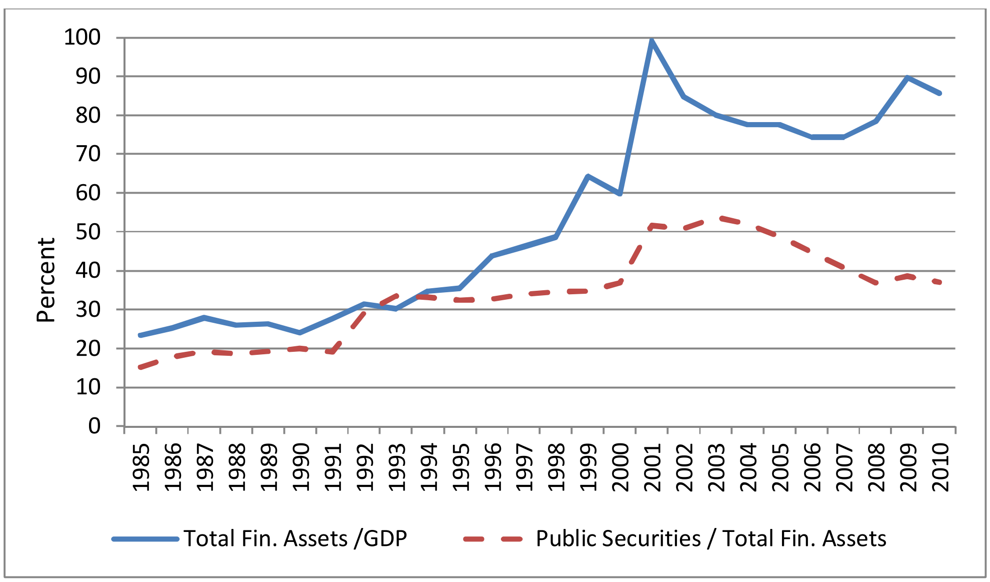

Figure 6.4. Total Financial Assets and Public Securities

Source: Ministry of Development (Economic and Social Indicators 1950 – 2010)
Note: 2010 data is of November, the ratio of total financial assets is recalculated according to 1998 GDP prices (new series)

The peculiarity of the financial deepening in this period lied in the dominance of public securities. State can be considered as "the pioneer of financial deepening"

(Yeldan, 1995: 66) in Turkey. This means that the state's overarching role in financial markets gave a particular flavour to the process of financial deepening. Attempts to finance public deficit was linked to the stability of the economy and the structural transformation of the economy during the 1980s and 1990s passed from financial deepening. Fiscal requirements and debt service problems were not the problems of the state *per se*. From a general point of view, it was also the problem of the dominating classes whose dominant position was dependent on the successes of the changing form of integration into world economy.

Turkish banks financed the public deficit in return of high interest rates and it was of utmost importance for business groups to receive their share from this transfer mechanism. Those groups that own private banks in their conglomerates or received preferential treatment from public banks had a great advantage against their competitors. Gültekin-Karakaş (2007: 274, 2009, see also Gültekin-Karakaş and Ercan, 2008) characterised the 1990s with the label "finance protectionism" since the profitability of banking sector was guaranteed by the state. To put in other words, the development and deepening of financial markets were achieved *via* protection which enabled many business groups to have the advantage of using credits in favourable terms. Though protectionism may not be the suitable concept for illuminating the complex set of relations between government authorities and banking sector or business groups at large, it is well documented that many business groups exceeded the limits of credit use while they resorted to their group banks (see BRSA, 2003).[102] Back-to-back credits, offshore banking and improper banking practices (Ergüneş, 2008: 313-320) were used as mechanisms for transfer of resources to corporations. The problems of banking sector marked the 2001 crisis. Re-regulation of banking sector continued to occupy an important place in the aftermath of the crisis. Comprehensive reforms for supporting the integration of Turkish financial sector with the international financial markets characterised the post-2001 agenda of economic policy makers.

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[102] This is why financial sector reform occupied the agenda in the late 1990s. See "Mali sektör reformu tamam" (1998, June 19), *Milliyet*; "Sabancı'nın üst kurul isyanı" (1999, October 16), *Milliyet*; "Demiralp: Yaramazlık yapan bankacının başı ağrıyacak" (1999, December 25), *Hürriyet*.

6. 2. 3. Post-crisis Reforms and Re-regulation (2001-?)

Turkey has experienced the most severe crisis in her financial history in 2000-2001. The GDP (new series - 1998 base year) declined 5,7 % and currency depreciated almost 54 % against USD in 2001.[103] Despite the collapse of the coalition government and transformation of the political landscape the monitoring of IMF was persistent during the post-crisis years. IMF insisted on the re-regulation of banking sector and reduction of public expenditure to produce a high level of primary surplus. This primary surplus, it was thought would be functional for minimization of the risks assumed by Treasury after bailing-out banks and assuming the so-called “duty losses” of state-owned banks.

The crisis of 2000-2001 was both a crisis of the banking sector and a currency crisis, in other words a situation of “twin crisis”, in which a balance of payments crisis takes place simultaneously with the crisis of the banking sector (see Yalman, 2004; Türel, 2010). SDIF became a critical branch in management of the insolvent banks starting in the late 1990s. Banking Regulation and Supervision Agency (BRSA) which was founded in June 1999 (Banks Act 4389) became the agency for regulating and overseeing banking sector in due course. 20 banks have been transferred to SDIF between 1997 and 2003. SDIF banks were restructured after they have been “nationalised”. Bakır and Öniş (2010) report that the huge merging activity in SDIF (thirteen of these former insolvent banks were merged with two other SDIF banks and five of them were sold) in 2001 and 2002 paved the ground for increasing concentration in banking sector and thanks to privatization and acquisitions the share of foreign-owned banks increased significantly. Bailing out the banking sector has been costly for the state (see Figure 6.3.). After the crisis the “duty losses” of state banks were eliminated and short-term liabilities were reduced.

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[103] See Ministry of Development – Economic and Social Indicators (1950-2010) for GDP growth rates. See price statistics at www.tuik.gov.tr and exchange rates at tcmb.gov.tr for exchange rate statistics. 12 months nominal profit from dollar at the end of 2001, according to TURKSTAT is 113 %. This means that the currency depreciation rate of TL against USD is 53,72 %. 1 USD equalled 669989 TL (old Turkish Lira) on January 2, 2001 and 1447714 TL (old Turkish Lira) on January 2, 2002 according to CB data. On the second day of January 2002, 46,28 cents were exchanged for 669989 TL (which equalled 1 USD on the second day of January 2001).

Treasury also injected FX-indexed securities in order to eliminate open positions within the sector.

Turkey provided a model case of bank rescues in "emerging markets". Marois (2009) mentions that this huge operation had three main tenets: First one is "socialization of debt" as seen in Treasury's injection of government securities to public and SDIF banks. Second main element is the "rationalization" of the sector as noticed in the Turkish case in the formation of regulation agency and measures for more strengthened sector. The final tenet is the "internationalization of the state's financial apparatus" as explicit in the impact of EU accession in financial policy formation and aim to create more muscular financial institutions for better management of the domestic financial system (see Marois, 2009).[104] Gültekin-Karakaş (2007, 2009) suggests that the crisis was also used for the elimination of some business groups from banking sector. The reform of the banking sector in that sense was a reflection of struggles between those groups as well. The restructuring, from such a point of view, is another facet in the attempt of the Turkish bourgeoisie to overcome structural obstacles in search for an environment more conducive to capital accumulation (see also Gültekin-Karakaş and Ercan, 2008; Gültekin-Karakaş, 2009).

As Yeldan (2006:210) observed for the post-crisis borrowings from the IMF, "the funds obtained from the IMF [were] to be used primarily by the banking sector with the exclusive aim of 'debt rollover'". *Transition to Strong Economy* program implemented after the 2001 crisis was congruent with the pre-crisis agreements with the IMF in terms of the aims of restructuring banking sector, privatisations and reform of social security system. Both *Transition to Strong Economy* and the economic program of JDP governments, however, did not aim to restrain capital flows which lead to a cyclical pattern of growth and crisis. Not surprisingly, Turkey

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[104] The alleged "rationalisation" of the banking sector started before the crisis but further steps were taken only after the "duty losses" were assumed and legal regulations for the restructuring of the banking sector were promulgated after tense debates in the parliament. See "Bankalara sıkıyönetim" (1999, December 18) *Milliyet*, "Kamu bankalarına 4,5 trilyonluk kağıt" (2001, January 4) *Milliyet*. It will also be a sweeping generalisation to claim an abrupt change in the banking sector, since, for example, the increased capital adequacy ratio pushed the banks to inflate their assets by changing the accounting methods. See "Banka kurtarma kavgası" (2001, December 28), *Milliyet* and Uras, G. (2002, February 12) "Bankaları yasa değil formül kurtarıyor", *Milliyet*.

experienced high rates of GDP growth thanks to capital inflows in the aftermath of 2001 crisis. The IMF surveillance however, continued until the peak of recent international financial crisis. 2005-2008 stand-by (19th in Turkish history), sought structural reforms in public finance. It was essentially the continuation of the previous austerity programs. JDP government did not seek to lengthen the stand-by agreement in 2008, which put an end to the longest IMF surveillance on Turkish economy (see BSB, 2008).

The stunning growth performance of the economy in the post-crisis period was presented as the success of reforms and adherence of government to fiscal discipline. Actually, what has been observed resembles to the previous sub-period in terms of the dependence on the inflow of capital. Despite the gradual decline, the high interest rates in Turkey relative to international financial markets proved persistent and it provided arbitrage opportunities for financial investors in the post-crisis period. Banking sector also continued borrowing significant amounts from international financial markets by resorting to syndicated or securitised loans. Current account deficit has reached to 32, 9 billion USD at the end of 2006 (CBRT, 2007) and 60,5 billion USD (for one year) in March 2011 (CBRT, 2011). Under conditions of capital inflow, the appreciation of currency motivated borrowing from international financial markets on the side of NFCs. The long-term foreign exchange denominated debt of NFCs has reached to 94 billion USD in August 2008 (CBRT, 2008).The increase in FX-denominated debt has slowed down in the last two years, nevertheless the foreign currency liabilities of NFCs in Turkey exceed their foreign currency assets more than 100 billion USD as of February 2011, implying the importance of currency risk for NFCs (CBRT, 2011: 18).

The monetary policy of the CB formed the base for capital inflows in the aftermath of 2001 crisis. With the amendment of the CB law (Act no 4651) the major objective of the bank was defined as the provision of price stability. The CB adopted a monetary policy that aimed to reduce inflation which was labelled as “implicit inflation targeting” (Özatay, 2009). Accordingly, since the restructuring of the banking sector was not finished and there was the possibility of sudden stops of capital inflows due to volatile risk appetite of investors, the CB postponed formal IT until 2006. Özatay (ibid.) the formal deputy governor of the CB at that time argued that the policy was "implicit" since the target was declared without any release of a formal inflation report and the decisions on interest rates could be taken at any time by the bank administration.

Unless the primary deficit is adjusted, a contractionary monetary policy may result in higher inflation levels if the country is under high public debt burden. Özatay (2009) recounts that monetary authorities of Turkey were not content with the declaration of monetary targets and were thinking of implementing a policy of IT.[105] They had doubts about the timing, since the public ratio of debt stock to GDP was very high. Özatay (2009) mentions that formal implementation was postponed among other reasons, also because of the high debt service ratio and the possible negative impact of the stock of debt upon the IT.

As mentioned above, the restructuring of the insolvent banks added a great deal to the existing debt stock. "Recapitalization included the elimination of about 27 billion USD stock of "duty losses" and related interest receivables; between January 2001 and September 2002, non-cash bonds amounting to 23 billion USD were injected into these banks for their recapitalization" (Bakır and Öniş, 2010: 88). With the help of debt swap of 8 billion USD on 15 June 2001 the maturity composition of domestic borrowing changed significantly and the Turkish Treasury assumed exchange rate risk in order to rescue bank-based financial system. BRSA (2003) declared that short positions of the banks were closed to some extent as the FX-denominated bonds compensated for dollar debts explicit in balance sheets.

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[105] IMF explicitly suggested formal inflation targeting policy framework in 2001. The narration of Özatay is as such (2009: footnote 18): "... the ratio of public debt to GDP has exceeded 100 %... Under such circumstances, it is possible to "waste" by wrong timing, if it is proper to use that term, the inflation targeting regime, which would be a strong weapon in the future. Naturally, we did not want such thing... That's what we debated with the IMF. Monetary targets were under threat at that time. We were trying to explain why raising interest rates would not work. Within the framework in our minds, we had, pushing the monetary targeting to the background and putting emphasis on inflation targeting and struggle with inflation. We were planning to prepare the background with successive declarations. They suspected that we only wanted to implement a policy focusing upon Treasury and thought that monetary targets will be ineffective in due course. They were asking, why we didn't implement inflation targeting, if we were not happy with monetary targeting". It could be noted that the previous failures in monetary targeting and exchange-rate targeting (see Türel, 2001: 84) made Özatay as a policy-maker and his colleagues much more cautious in declaration of explicit commitment to inflation-targeting.

The Treasury had already provided extensive guarantees to the banking sector before the 2001 crisis (Bakır and Öniş, 2010). After the crisis, by the help of this swap, Treasury assumed the exchange rate risk of private banks and helped them reduce their open positions. Bank capital strengthening program was implemented and debt of 308 private sector companies amounting to 5,1 billion USD was restructured under the financial restructuring program of the so-called "Istanbul Approach" (BRSA, 2003). The cost of the restructuring for public sector was 39,3 billion USD (BRSA, 2003: 6). According to BRSA[106] the total cost of the restructuring was 47,2 billion USD. As a result of this restructuring and socialisation of the losses of the financial sector, the PSBR ratio increased dramatically. During this sub-period at hand Turkey was expected to produce high ratios of primary budget surplus for its debt service. This would mean drastic cuts in public expenditure. A renewed wave of privatization in many sectors for increasing the income of the state accompanied the budgetary austerity.

The ratio of the indirect taxes within total tax revenue increased further in the last decade, from 65 % in 2002 to 71 % in 2010. The ratio of indirect taxes within total public revenue has reached to 55 % in 2010 and the ratio of corporate tax in total tax revenues revolved around 10 % (Köse, 2011). These figures indicate the persistence of state in relying on indirect taxes and they are indicative of the fact that taxation policy works to the detriment of wage labour. The taxation policy contributed to what can be labelled as the renewed austerity upon the state.

In general terms, post-crisis reforms aimed the end of what has been called "open position banking" (see Goz, 2009), aimed to reduce inflation and impose a renewed austerity upon public sector. Decreasing inflation in the last decade was accompanied by fiscal austerity on the one hand and stabilisation of exchange rate through high real interest rates on the other (Sönmez, 2008; Şener, 2011). However, debt restructuring and maturity extension over the years should not be understood as a debt relief. According to calculations of S. Sönmez (2009: 68), the central

[106] Banking sector was monitored by the CB and the Treasury before the foundation of Agency. It would not be proper to claim that the CB and the Treasury officials did not supervise the banking sector before the crisis (see interviewees cited in Bakır, 2007). The restructuring of the banking sector and its supervision, however, became the popular tenet in government discourse and was presented as of utmost importance only in the late 1990s and particularly in the aftermath of 2001 crisis.

government debt stock between 2002 and 2007 doubled in dollar terms. The domestic debt stock increased much more than the foreign debt stock. Net domestic debt stock rose from 48 billion TL in 2000 to 228 billion TL in 2005 and 304 billion TL in 2010 (Treasury, Debt Statistics).

The ratio of total financial assets to GDP hit record levels in 2001 as a result of the costly restructuring of banking sector. After gradual decline in the ensuing years the trend reversed and the ratio reached to 90 % in 2009 (ESI, 1950 – 2010). Accompanying the persistent importance of public securities in financial markets and the domination of financial transactions by GDI was the growing importance of consumer loans and credit cards for the banking sector in the last decade. While credit card loans has quadrupled from 2002 to 2007, the ratio of consumer loans to GDP has risen to 13 % in 2007 from a low level of 2 % in 2002 (Bakır and Öniş, 2010: 95). This new pattern suggests that the focus of the banking sector has extended to include household consumption. Turkish economy has entered into the era of the international financial crisis with apparently a high level of the CB reserves and restructured banking sector with a heavy dominance of commercial banks. These banks, however, continued investing heavily in GDI and directed their focus to household expenditure. The absence of synthetic CDOs in the portfolio of Turkish banks and the shallowness of Turkish financial market when compared with those of advanced capitalist countries made the impact of 2007-2009 crisis upon the financial sector less visible. Nevertheless Turkey was among the countries, in which the impact of 2007-2009 crisis was felt severely. This can be attributed to the complete subordination of the economy to the circumstances of international capital mobility (Boratav, 2011). The CDS base points of Turkish sovereign bonds were not that high when compared with those which remained at the periphery of Europe and experienced a sovereign debt crisis and/or crises within their financial system. However, the growing stock of public and private debt in Turkey and the problem of current account deficit within the last decade as a whole imply that the form the debt-driven expansion of the financial sector took, makes the crisis lurk in the doorstep of the economy.

6. 3. On Stylised Facts and Financialisation of Turkish Economy

Financial markets have been more and more important in the Turkish economy. There is a consensus in the literature that financialisation is characterised by staggering rates of GDP growth. Primary condition, however, of financialisation is the mobilisation of capital, in and between the financial markets, not necessarily for only "negating" production but also for future productive investment, sectoral change, takeover and hedging risk. The literature as discussed in the second and third chapters focuses on stylised facts. Some of these facts emphasised specifically within the literature can be noted as such:

- increasing share of national income that goes to the financial sector
- increasing profits of financial corporations in comparison to NFCs
- increasing involvement of NFCs in financial activities and investment
- increasing ratio of household debt to GDP

These developments are based on the growing importance of interest-paying financial transactions and securities symbolising fictitious capital. They lead to drastic consequences for the economy. The yield of financial assets surpasses the expected income from productive investment. Accumulation of financial assets in the hands of NFCs and/or increase in the non-operating incomes of NFCs can be noted as a consequence (see Table 6.1.). The share of financial intermediation within GDP increases. Increasing household indebtedness imply that significant part of household income is allocated for rolling over private debt. It becomes much more profitable for business groups to own financial corporations under such circumstances.

Turkish economy entered to the route of financialisation not as a result of the micro-finance strategies of firms financing their investment by bond issuance or stock market operations, or the parasitic activities of a rentier class. Financial liberalisation and the state crawling under a heavy debt burden opened the way, while the conglomerates that owned banks gained handsome profits by funding the state. These conglomerates which revealed a diversified production structure as a result of the Turkish industrialisation experience preferred financial investment or compensated their losses from productive investment by interest income in the 1990s. Turkish state played according to market rules[107], which led to symptoms dubbed as speculation-led growth and deepening of the financial system relative to former decades. Investment into GDI played a critical role in the 1990s and the banking sector was the major financial intermediary. Banking sector was capable of directing the attention to consumer credits and real estate market in the 2000s and this added flavour to the process of financial deepening in the 2000s. NFCs borrowed heavily from international financial markets in the aftermath of 2001 crisis and significant part of their non-operating income came from profits gained in currency exchange operations.

Table 6.1. indicates the non-operating income figures for the biggest 500 industrial firms and ratio to their total income roughly within the last two decades. In the 1990s, the real interest rate offered by GDI and the attractive financial investment opportunities led many to search for greater income from non-productive activities. If dramatic increases in the years of crisis left aside, these show that the ratio revolved around 50 % in the first half of the 1990s and decreased considerably in post-crisis period. In nominal terms, however, the increase was constant until 2004 and came mainly from interest income. The Chairman of the Board of Istanbul Chamber of Industry, Küçük (2008, 2009) suggested that the former incomes through non-productive activities in the 1990s mainly composed of interest incomes (from GDI) and the recent improvements in the financial structure of industrial firms should not be easily affiliated with improvements in production sphere. Financial investment was more profitable for NFCs given the spectacular interest rates and economic instability. Banking sector as the backbone of financial system benefited from this milieu and Ponzi scheme operating in Turkey in the 1990s. It seems meaningful to suggest that the banking sector consolidated its dominance within financial sector during the financialisation of economy. As can be seen in Table 6.2. mostly banking sector financed public expenditure throughout the post-1980 period.

[107] GDI market in Turkey provides an important field for investment and takes the ninth place in the world according to the ratio of capitalization to GDP (see Gürün et al. 2009). Considering the fact that Turkey is also among the biggest 20 economies of the world, the importance of public bond market and its construction in the 1990s can be noted.

Banking sector was able to finance the public debt rollover by the help of the external credits they took from the international financial markets. The ratio of government's domestic borrowing financed by banks slumped in 1994 and 2001, since record levels of inflation and volatility led to decline of real interest on GDI. Diversification of financial services, offered by IFIs, was one of the remedy for mobilization of savings to finance new investment. It was argued that the development of equity markets in Turkey would provide the long-term finance needed (Raina and Bakker, 2003: 3). The growth of NBFIs would enforce competition in financial services industry. It was believed that the diversification and the decreasing real returns on GDI would make a decisive and positive impact upon the relations between financial sector and the state. The crowding out effect of Treasury's debt rollover will be avoided within such a formula.

The imposition of financial discipline *via* diversified and competitive financial sector is, indeed regarded as a buffer against the short-termism emanating from public debt management (see Raina and Bakker, 2003). The promised lands of financial liberalisation, however, did not yield, to use the neoclassical jargon, effective resource allocation through market mechanism. NBFIs in Turkey are relatively insignificant. Insurance companies, reinsurance companies, special finance houses, leasing, factoring and venture capital firms, pension and mutual funds and brokerage firms do not have substantial amount of assets when compared with the banking sector (Raina and Bakker, 2003). Total asset size of Turkish financial sector amounted to 1297,9 billion TL in 2010. 77,6 % of these assets were in the hands of banks (CB excluded), while insurance, reinsurance and pension funds held 2,8 % and securities mutual funds held only 2,2 % of total financial assets. Despite significant growth rates of assets of NBFIs, banking sector takes the lion's share in the financial sector of Turkey (UT, Insurance Supervision Board, 2010). Still, it should be mentioned that the trading volume of brokerage firms within derivatives exchange surpass the trading volume of banks. Public securities market, however, is still dominated by banks.[108]

[108] According to the Assocation of Capital Market Intermediary Institutions of Turkey, Factsheet of March 2011 (www.tspakb.org, retrieved on August, 29, 2011) trading volume of brokerage firms in bonds and bills market (141 billion TL) is slightly higher than 10 % of trading volume of banks within the same market (1227 billion TL). Derivatives exchange is, however, dominated by

Table 6. 1. Non-operating Incomes of Manufacturing Firms and Ratio to Total Period Income (biggest 500 industrial firms in Turkey)

	non-operating incomes (thousand YTL)	ratio (%) to total income
1983	0.037	19,6
1991	3.721	51,1
1992	7.794	38,9
1993	17.548	40,7
1994	57.694	54,6
1995	96.191	46,5
1996	195.948	52,9
1997	407.054	52,7
1998	699.577	87,7
1999	1.577.329	219,0
2000	1.760.163	114,4
2001	4.645.687	547,0
2002	4.833.432	113,2
2003	5.016.304	71,8
2004	3.557.069	39,1
2005	3.048.142	37,0
2006	3.380.665	26,3
2007	6.124.524	35,6
2008	3.793.360	36,8

Source: ISO reports (speeches on reports delivered by the head of Istanbul Chamber of Industry, see http://www.iso.org.tr/tr/web/statiksayfalar/Meclis_Konusmalari_23-07-08.aspx, http://www.iso.org.tr/tr/web/statiksayfalar/Meclis_Konusmalari_22-07-09.aspx retrieved on August 8, 2008 and August 23, 2011 respectively)
Note: Total income of firms is calculated by the sum of profits and losses before taxation within the same period. The figures of the crisis years 1999 and 2001 show great deviations, which make them doubtful. The data compiled in Köse (2011) shows that the ratio of non-operating incomes to the total income in the manufacturing industry as a whole revolved around 45 % in the last decade.

brokerage firms whose trading volume was 749 billion TL in 2010. Although trading volume of banks in derivatives exchange is 114 billion TL in 2010, it should be underlined that 29 banks prefer to take place within the market by their own financial intermediary institutions (see January 2011 bulletin of CMB, http://www.spk.gov.tr/apps/aylikbulten/index.aspx?submenuheader=-1, retrieved on August 25, 2011). CMB decision in 1996 allowed banks to acquire their own brokerage firms for stock market operations.

Table 6. 2. Ratio of government's domestic borrowing financed by banks (Percent) – Selected Years

1991	1994	1997	1998	1999	2000	2001	2005	2006	2007	2008	2009
92,8	**71,5**	**89,5**	**86,8**	**85,3**	**75,9**	**74,5**	**88,3**	**88,5**	**82,1**	**79,5**	**87,5**

Source: Undersecretariat of Treasury (UT, 2010)

The dominance of GDI within securities market as seen in Figure 6.5. implies that the expansion of financial market was driven by public securities. Despite the use of funds in the hands of banking sector for financing public expenditure, there has been an important change in the post-2001 period. This is the growing share of private credits in the assets of deposit banks. The ratio of deposit bank credits to GDP was below one fifth in the 1990s and it increased to 26 % in 2007 and 36 % in 2010 (ESI, 1950 – 2010). This change should be taken into consideration with the growing importance of consumer loans for the financial system in general and banking sector in particular in the aftermath of 2001 crisis.

The share of consumer credits within private credits increased from 11 % in 1997 to 40 % at the end of 2006 (BSB, 2008: 119). The figures imply that the "housecleaning" in the banking sector (BSB, 2008) did not lead to a pattern in which the savings are channelled to fixed capital investments, but rather to financing government debt and household consumption. As seen in Figure 6.2., there has occurred a gap between the private savings and investment in the 1990s. The savings were not directed to the investment as expected in the aftermath of financial liberalisation. The share of private manufacturing investment in GNP showed a relative decline in the post-1980 period as a whole (see Gezici, 2007).

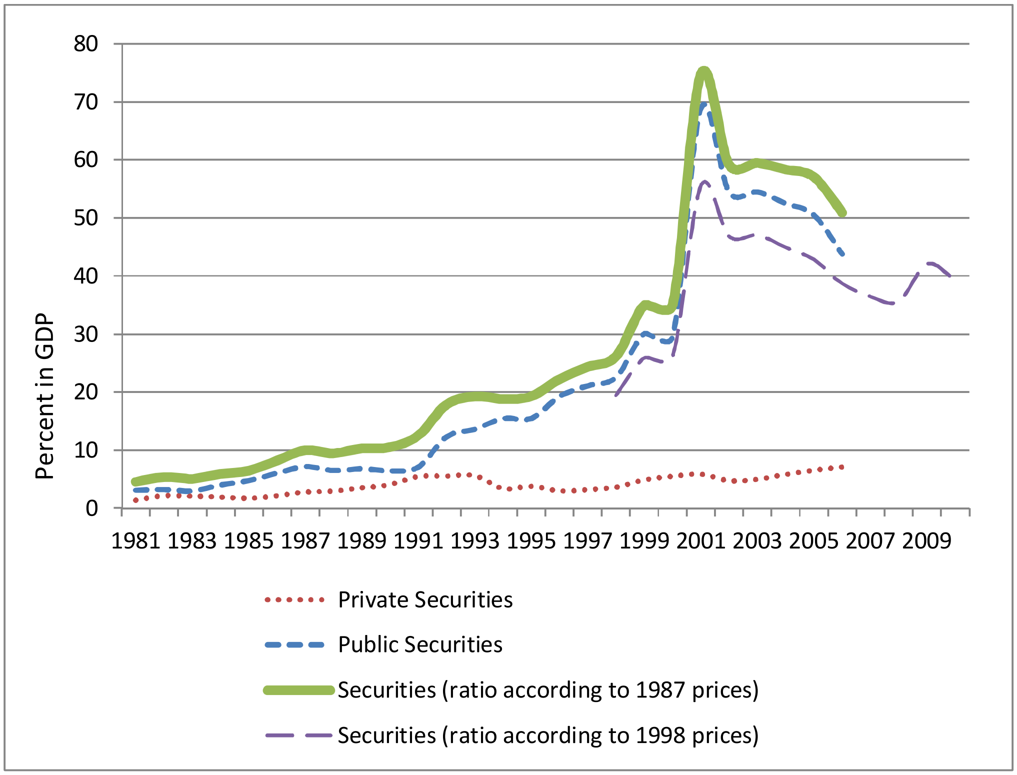

Figure 6. 5. Pattern and Composition of Securities

Source: Ministry of Development (1950-2010 Economics and Social Indicators)
Note: 2010 securities data is of eleven months

The rise in stock exchange trading volume presents a contrast with stagnant share of private manufacturing in GNP. It supports the popular perception of stock exchange operations as casino-like transactions. Figure 6.6. summarises two of the basic developments in securities markets. The number of firms traded in stock exchange was 80 in 1986 (the number of listed firms was 350) when the ISE was opened. It has increased to 110 in 1990 and with gradual rises every year reached to 287 in 2000. As of 2010, the number is 294 (ESI, 1950-2010). The transactions volume increased significantly in the late 1990s and continued to rise after the 2001 crisis. Government securities direct transaction volume exceeded that of ISE trading volume in 1999, 2004 and 2005. The virtual absence of a corporate bond market confirms the view that the GDI trade and speculation on government securities continue to occupy an important place when financial activities are concerned. The volume of trade in private securities (corporate bonds and bank bonds) traded in ISE

Bonds and Bills Market do not amount to 1 % of volume of trade in government bonds. [109]

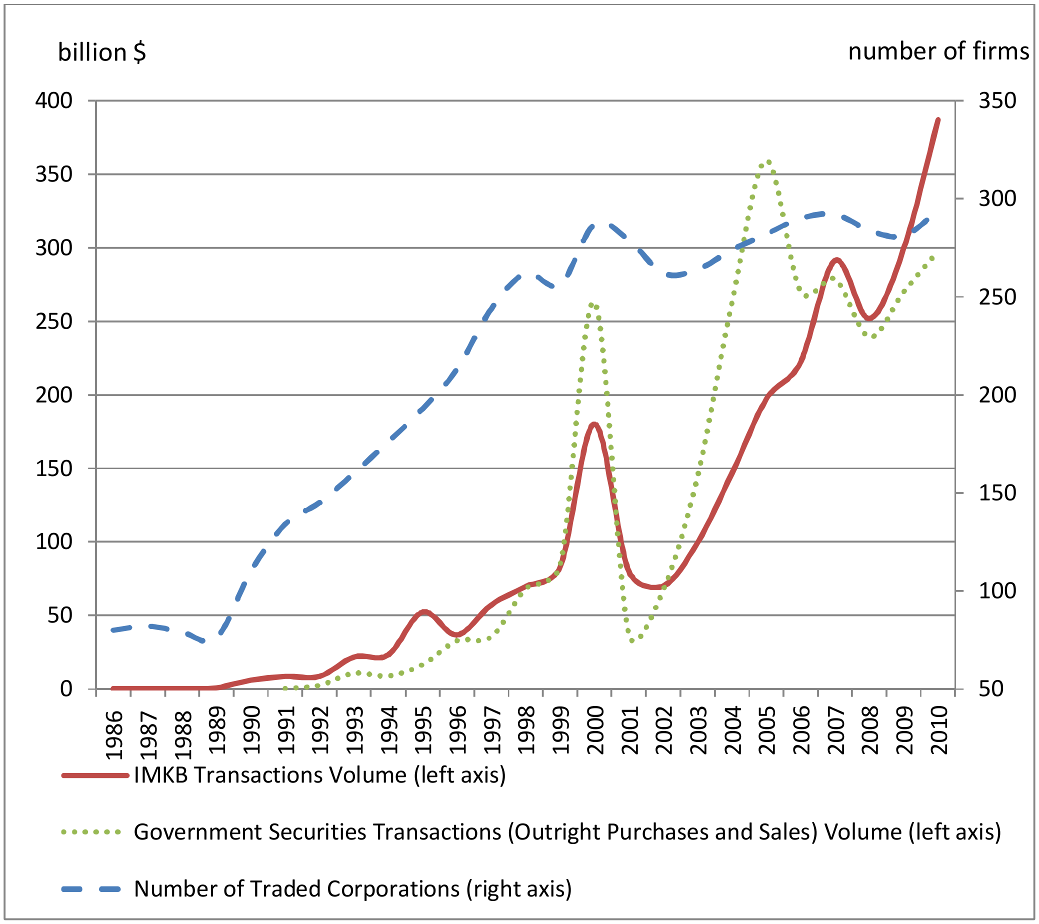

Figure 6. 6. Number of Firms operating in Istanbul Stock Exchange (ISE / IMKB), Trading Volume in ISE and the Volume of GDI Transactions

Source: Ministry of Development Economic and Social Indicators 1950-2010

As discussed in previous chapters, financialisation in the "emerging markets" is not the replication of financial transactions observed in the financial markets of advanced capitalist countries. Real interest rate on GDI during the 1990s played an important role in the financialisation of Turkish economy. The ratio of the value added by financial intermediation to GDP started to decline in the post-2001 period.

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[109] See ISE Bonds and Bills Market Daily Bulletins (http://www.imkb.gov.tr/Data/BondsandBillsData.aspx)

Table 6. 3. Public Securities, Real Interest Rates and the Ratio of Financial Intermediation Activity to GDP (new series)

Years	Public Securities / Total Financial Assets (%)	Real return on GDI* (%)	Financial intermediation /GDP (current prices)** (%)	Financial intermediation /GDP (1998 prices) (%)
1985	15,1			
1990	20,0	-3,9		
1995	32,5	17,3		
1998	34,5	20,5	7,6	7,6
1999	34,7	27,0	10,2	8,4
2000	36,9	-10,9	7,0	8,2
2001	51,6	27,1	8,6	10,0
2002	50,9	13,0	4,4	8,9
2003	53,8	15,7	3,4	8,0
2004	52,1	15,7	3,3	8,3
2005	48,8	8,0	2,8	8,7
2006	44,7	7,9	2,9	9,3
2007	40,7	9,2	3,2	9,8
2008	36,9	8,0	3,5	10,6
2009	38,6	6,0	4,5	12,1
2010	37,1	-0,1	3,8	11,9

* Real return on GDI is calculated by using average compound interest rate on domestic public debt instruments (1950-2010 Economic and Social Indicators, Ministry of Development) average annual changes in consumer price index of TURKSTAT. For period 1987-1994 SIS 1987=100, for period 1995 January-2004 November SIS 1994=100, for period 2004 December -2010 December Turkstat 2003=100 based CPIs are used. The formula is as follows: Real return = [(1+nominal interest) / (1+inflation rate)] - 1

** TURKSTAT new series (1998 prices) GDP calculations by kind of economic activity, do not include the figures for the years before 1998. It is not meaningful to compare the figures with those calculated according to 1987 prices (which does not cover the figures for post-2006), because of the difference in calculation methods (see Türel, 2009).

If the real interest rates and the ratio of financial assets to GDP is considered (Figure 6.4.) it can be legitimately argued that the income from having financial assets increased dramatically in the 1990s, and the real interest rate on GDI (see Table 6.3) was much higher through the last decade, than the yield of public securities issued in advanced capitalist countries.

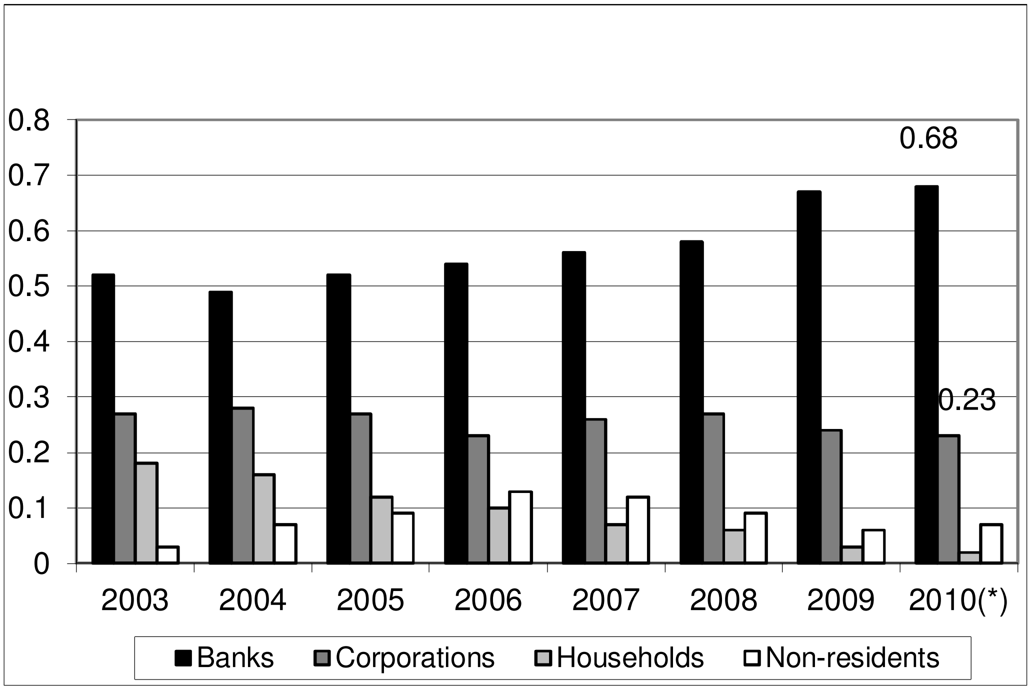

Figure 6.7. Domestic Debt Stock by Owners (2003-2010)

*2010 data is of April
Source: Köse, 2011
Note: GDI owned by banks operating in Turkey, GDI owned by corporate bodies and investment funds and kept in banks, GDI owned by households and kept in banks, GDI owned by non-residents and kept in banks are included in data.

Figure 6.7. shows that despite decreasing returns on public securities, banks still hold large amounts of GDI and 68 % of domestic debt securities are held by banks. It is also explicit that investment into GDI is still a viable element of business stategy for corporations. In general terms, financialisation in Turkey has not brought along formation of a market-based financial system in which the corporate bond market and ISE operations are functional for provision of funds necessary for further investment. In its stead, the banks have consolidated their place within the financial system and deposit banks played a significant role as financial intermediaries in financing public expenditure and household consumption. The deepening of the

financial market in Turkey is characterised by the dominance of GDI within the securities market. The transformation in Turkish economy is discussed further below with reference to the scholars who characterise this transformation.

6. 4. Financialisation vs. Speculation-Led Growth

The notion of finance-led accumulation (see Panitch and Konings, 2009; Marois, 2009) is being used by critical researchers in order to signify the important place of speculative activity and financial discipline within the consolidation of neoliberalism. The notion of speculation-led growth, on the other hand implies that “finance is elevated over industry and the real sphere of economy, and the financial sector drifted to the speculation of short-term capital flows” (Yeldan, 2006: 201). As the economy experiencing speculation-led growth follows the patterns imposed by capital flows, it becomes more difficult to devise a macroeconomic policy, which would enhance the productive capacity of the economy and aim a fair redistribution of income. Socialization of private debt and bank rescues indicate that the financial crises provide circumstances which deteriorate the conditions of wage earners during speculation-led growth. The financial instability is used to stimulate new regulations and arrangements which in turn consolidate the income inequality. The use of primary surplus for the rollover of debt necessitates further cuts in social expenditures and permanent restructuring of the public sector (see Önder and Balseven, 2009). These elements of speculation-led growth argument (see Ataç and Grünewald, 2008; S. Sönmez, 2009) are used to emphasize the rise of financial capital or the determinant role of finance. For Yeldan (2006: 211) the transformation of the economy in line with the recipes of IFIs will “satisfy the needs and demands of financial capital centres rather than strategic requirements of the domestic economy”. The speculation-led growth argument, in Turkish context refers to the “strategic requirements” of the economy, denied first and foremost by the demands of international financial centres.

The major objection that can be posed is the inability to answer the question how the strategic interests of domestic economy are defined. Gültekin-Karakaş and Ercan

(2008) argue that the “outside-in”[110] approach in the analyses of Turkish economy portray a unified economy subjected to the demands from outside. They offer a fractional approach to highlight the time-dependent strategic choice of capital groups between money capital and productive capital. Accordingly, Turkish conglomerates benefited from the instability of Turkish economy and prepared themselves for a transition to a pattern of capital accumulation based on a broad productive spectrum.[111] The structural constraint of Turkish business groups was revealed as their constant attempt to raise the relative surplus value, but the extraction of absolute surplus value (by avoiding real wage increases) continued to be important. Their argument is that the internalization of international capital in the 1990s paved the ground for internationalization of production in the 2000s.

Two points to be criticised can be noted in this fractional approach, posited by Gültekin-Karakaş and Ercan (2008, see also Gültekin-Karakaş, 2009) and aiming to emphasize the inter-connectedness of industrial and financial capital. The first one is the presentation of “financialisation” concept as an attempt by Anglo-Saxon analysts to illuminate an alleged new type of capitalism (see Gültekin-Karakaş and Ercan 2008: 37). As our discussion on the concept in the second chapter indicates, the use of concept cannot be identified with a particular school. It would not be fair to suggest that “financialisation” argument is based on the perspective that the financial sector is disarticulated from real sector, and a new capitalism has emerged.[112] In contrast, as the study at hand aims to indicate, the concept can be useful in delineating the transformation of the national economies, the contradictions arising therefrom and the rise of financial activities.

[110] This term is used to underline the tendency of criticised argument for overemphasizing the role of IFIs and the economic programmes devised abroad in transformation of the economy and restructuring of state-economy relations.

[111] This approach appears as the exact opposite of pointing out the process of liberalization as “the significant undoing of any effort by the state to make private industrial accumulation attractive” (Eres, 2007: 125). The public debt financing was functional, according to Gültekin-Karakaş and Ercan (2008), in consolidating the preference of business groups to accumulate money capital, which would be later invested into production.

[112] The CRESC researchers may suggest the rise of a new type of capitalism, but “financialisation” as a concept does not have a single meaning and its use is not monopolised by one school of thought.

The second point is related to the use of the term strategy, in their work, for delineating the transformation of the economy. By way of overemphasising strategy of business groups (internationalisation of capital and production), the analysis bears the risk of substituting retrospective analysis with a teleological account of changes in Turkish economy in the aftermath of capital account liberalisation. The analysis of political economic developments in Turkey in the last three decades should emphasise the peculiarity of financial deepening and the use of public debt market for valorisation of capital and accumulation of money capital without resorting to an overarching capital-logic. Business groups are capable of strategic decision making; however, the strategy should be clearly posited. In that sense the use of notions such as "accumulation strategy" or "strategic decision making" without referring to contradictions emanating from financial transactions and the mode of integration into world economy will defeat the purpose.[113]

There is another theoretical controversy to be noted in terms of the use of "accumulation strategy" as such. Despite the increasing importance of financial operations in the overall functioning of the economy and importance of speculation for business groups, it would be troubling to define the 1990s as the decade of "finance-led accumulation" (see Ataç and Grünewald, 2008) or "financial regime of accumulation" (Karahanoğulları, 2003; S.Sönmez, 2008,2009) in Turkey. As the concept portrayed by *Régulation*-ists (see Boyer, 2000) would include the integration of the wage-earning strata in such a manner that the welfare effect created by asset price appreciation is used for fortifying a virtuous circle, 1990s Turkey hardly fits the definition. For, it was the aim of policymakers and financial investors to minimise the impact of vicious debt circle for capital in general, while paving the ground for business groups to gain the utmost profit from related financial operations, let alone searching for viability of aforementioned "finance-led accumulation".

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[113] Making lucrative profits out of funding public expenditure was not the strategy of business groups, but once the economy is liberalized and the Ponzi scheme started to work, it would be unthinkable for business groups to stay away from this resource transfer. In a similar manner investment into high-tech based industries, which would serve increasing competitiveness, was not the ultimate objective at least for a considerable period of time during the neoliberal period (see Yalman, 2004).

Bakır and Öniş (2010) emphasise financialisation in Turkey with respect to the increasing importance of consumer loans and household consumption. Rather than providing credits for capital investment, banking sector offers credit for household consumption in the aftermath of 2001 crisis. In their terms financialisation of Turkish economy can be seen as the result of the neoliberal restructuring. The regulatory state in Turkey of post-Washington consensus era was successful in regulating financial intermediation, but this has not turned into regulation of banking sector so as to channel domestic savings to productive investment. From their point of view, the growth is now dependent upon household debt. The regulation of financial sphere has become much more prominent in terms of supporting economic growth in post-2001 period. The financialisation of Turkish capitalism with all its negative connotations such as lack of long-term economic growth, privileged position of financial capital and social costs of monetary policy are highlighted in their study.

To put into Marxian terminology employed by Lapavitsas (2009a), the focus of Bakır and Öniş (2010) is "financialisation of individual worker's income". With hindsight, they articulate the discussion on financialisation to show the limits of post-crisis reforms in Turkey. With a similar concern and specific references to the *Régulation* school and CRESC researchers in discussion of the concept of financialisation, Ertürk (2003) argued that IMF-led economic reforms paved the ground for financialisation in Turkey and the reforms for "corporate governance" are doomed to fail unless the financial intermediation is transformed in a radical way so as to avoid functioning of GDI market as a coupon pool.

> The neo-liberally designed money markets in the developing economies lead to the trading of treasury coupons with yields that are impossible to achieve in today's global product markets. The governance initiatives of the IMF and the World Bank do not address this fundamental relationship between the cost of capital and the return on investments in a globalised economy where over-capacity and outsourcing make it very difficult for private firms in the developing world to achieve returns superior to the ones that exist in domestic financial markets. Hence, the economic policies that are promoted by the Washington consensus, wrapped up in a rhetoric of governance – and within the context of competition for international capital and sustainable public debt dynamics – fail to acknowledge the effect of yield dynamics in financial markets on the behaviour of private firms and are themselves doomed to fail. From the policy point of view, in a world where product markets are internationally very competitive, the

> implications of the dynamics of financialisation in the developing world deserve more attention than governance (Ertürk, 2003: 202).

The high yield of financial assets in domestic markets has declined gradually in the aftermath of 2001 crisis. As seen in Table 6.3. return on GDI is significantly higher than the yield of public debt in advanced capitalist countries, however the declining interest on GDI point out the need to revise Ertürk's account in light of the post-crisis changes. The share of financial intermediation within GDP (current prices) declined in post-crisis years and the bubble in the cash income of financial sector seen through the 1990s (see Türel, 2009: 143) burst.

Despite these significant changes in the aftermath of crisis, Turkish economy deserves to be defined as financialising. The rise of "rentier income" (Yeldan, 2004, 2006) or the dominance of financial capital fraction (see Ataç and Grünewald, 2008) discussed with reference to the 1990s has to be complemented with the accounts of income of NFCs from exchange rate operations, the allocation of an increasing part of household income for interest payments on debt and the growing importance of financial markets for the economy as a whole throughout the last decade. In this bank-based financial system of Turkey in which GDI dominates the financial markets (as seen in Figure 6.5.) the process of financialisation had some peculiarities which cannot be seen in the market-based systems of developed countries. Financialisation in Turkey in a broad sense can be portrayed by explaining the forms of state intervention in the provision of not only the legal structure and post-crisis reforms for overseeing the financial markets but the continuous attempts to finance public sector. The growing concerns for the sustainability of debt on the one hand, problems of maturity and currency mismatch in the banking sector on the other hand were notable features on the way towards 2000-2001 crisis. Another important dimension of financialisation such as the channelling of household income into financial markets became conspicuous in the aftermath of the 2000-2001 crisis and the re-regulation of the banking sector. Increasing involvement of NFCs in financial activities and investment was characterised by significant ratio of non-operating incomes, due to interest income in the 1990s and exchange rate operations and declining but still high yield of assets in domestic financial markets in the 2000s.

6. 5. State and Strategies of Business Groups

Financialised accumulation in Turkey is a result of the neoliberal orientation of the last three decades and the capital account liberalisation in 1989. S. Sönmez (2008) argued that the new "accumulation regime" in Turkey impacted upon the management of public debt and public finance in general. It can be also argued that the public debt management and state intervention in that respect impacted upon strategies of business groups and the accumulation process.

The impact of public debt on investment, it has been argued, was negative throughout the 1990s. As summarised above, high interest rates and GDI trade made "rentier" behaviour more prominent for commercial banks (see Gültekin-Karakaş, 2009). For many scholars, this has led the way for crowding out of private sector from the money market. For many liberals, had the public debt levels been lower, the ratio of manufacturing investment to GDP would have been much higher.

Yalman (2009: 295) criticises this crowding out perspective and underlines the behaviour of capitalists in his analysis of adjustment and financial liberalisation:

> [A]s the process of financial liberalisation deepened, the Turkish groups seemed to have no inhibition to indulge in activities which would *not* normally be considered 'functional' for the reproduction of industrial capital in particular. Rentier activities seemed to be the order of the day, as the commercial banks have been operating as institutional rentiers i.e. deriving the bulk of their profits from the trading of tax-free Treasury bonds and other instruments like repo (repurchased order of securities) which were made available as the benefits of financial liberalisation. Increasingly, the industrial firms, too, have been observed to invest available funds in financial markets which allowed them to enjoy high profit rates in the form of 'non-operational profits', a phenomenon that would be prevalent in the course of the 1990s (Özmucur, 1997, p. 19). This also provides insights about the behaviour of the capitalists who tend to avoid new investments in productive activities so long as there are other opportunities to maximise their profit rates

The benefits of financial liberalisation were used mostly by the business groups organised in the form of holdings. Turkish business groups were organised as holdings as the legal regulations made it much more profitable to do so. *Vakıf* organisations, insurance companies and banks became part of the holdings starting from the 1960s onwards. Multi-layered holding organisations provided tax deferrals and reductions for many business groups (Tekeli and Menteş, 2009). The rush for bank ownership on the other hand started in the 1980s and profit opportunities as well as the advantages gained from control of money capital made it much more important in the aftermath of financial liberalisation. As documented by Ergüneş (2008) and discussed further in the seventh chapter, for business groups bank ownership provided access to huge amounts of credits (sometimes beyond legal limits) on the one hand and enabled them to take part in the resource transfer through GDI trade on the other. The distinction between the importance of bank ownership for holdings of the import substitution era[114] and the financial liberalisation period resides on high returns on financial assets and the growing importance of ownership of financial assets, explicit in the high real interest rates and the growing ratio of total financial assets to GDP in the post-1980 era. The bank ownership in the last decades provided a strong leverage against other business groups.

Some business groups had to exit from the banking sector as a result of the restructuring in post-2001 period. The last decade reveals a slightly different picture from the 1990s. The importance of ownership of financial intermediary institutions did not come to an end. There has been a change, however, in the strategy of business groups as can be noticed in the dramatic increase of private sector foreign indebtedness. Business groups borrowed heavily until the credit crunch from international financial markets and manufacturing firms have been using exchange rate operations for increasing their non-operating incomes. Gross external debt of private sector reached to 184 billion USD in 2008 from 43 billion USD in 2002 (UT, 2010). FX denominated liabilities of private sector increased partly because of the monetary policy of JDP governments which made it preferable to borrow in dollar terms. The real appreciation of TL in the last decade and the real appreciation of Euro against USD made it more important to hedge risk by monitoring developments in international financial markets. Not only the dramatic increases of non-operating incomes due to exchange rate operations, but also the structure of

[114] Tekeli and Menteş (2009: 66-67) states that banks were critical for holdings in the inward oriented period for mainly the mobilisation of savings and provision of credits for the corporations within the holding and the fact that the increase in the layers of holding was functional for tax deferrals.

manufacturing sector and the dependency on the imports of intermediary goods remind the fact that business groups are vulnerable to exchange rate fluctuations.

S. Sönmez (2008: 278) argues that the increase in foreign debt stock is based on a model which underlays the "financial accumulation" in Turkey in the last decade:

> The model is based on real interest rate in domestic market, higher than international markets and repressed exchange rate (especially USD), i.e. overvalued TL… By adding the risk premium under the assumption that exchange rate will be stable, commercial private banks and other private sector members increasingly borrow from foreign markets with lower costs… By the help of FX abundance, the exchange rate is repressed and liquidity in TL terms that increase as a result of FX inflows, is sterilised through domestic public borrowing, i.e. withdrawn from the market. In this way, exchange rate increases can be controlled by the help of domestic borrowing. It is through high real interest payments, the interest burden of private sector which borrowed in foreign markets and lent the Treasury by converting it into TL, is being reduced.

The model increases the vulnerability to exchange rate fluctuations on the one hand while providing a channel for lucrative business not so different from the one prevailing in the 1990s. M. Sönmez (2009) mentions that the overvalued currency makes it easier to import intermediary goods. Nevertheless, it also triggers high current account deficits and increases the dependency of Turkish manufacturing sector to imported goods. The increasing export is accompanied by increasing level of imports in the last decade and business groups rely on exchange rate operations alongside the strategies for increasing productivity. While the monetary policy succeeded to some extent in decreasing inflation, the dependency to inflow of capital and credits continued and kept the economy prone to crisis.

This analysis reveals a contrast with the critical accounts of Gültekin-Karakaş and Ercan (2008) and Gültekin-Karakaş (2009). These studies suggested that the slight increase in the share of manufacturing sector within GDP in recent years and the liquidation of banks that relied predominantly on the income from GDI trade could be seen as the facets of transition to a new period. This period would be characterised with the growing integration of Turkish business groups with international system. Business groups as components of "finance-capital" are much stronger and are directing their investments to intermediary and capital goods.

It, however, remains questionable to what extent this re-orientation should be seen as an industrial restructuring or advancement. Although the share of manufacturing investment within gross fixed capital investment increased from 2002 onwards until 2008, the ratio of gross fixed investment to GDP did not increase in substantial terms and decreased to 13,1 % in 2009 during the international financial crisis (ESI, 1950 – 2010). The utilisation of excess capacity in the aftermath of 2001 crisis was another element negatively impacting on the ratio of private sector fixed capital investment to GDP (BSB, 2008).

Karahanoğulları (2009) asserts that the year 1999 should be seen as a breaking point within the neoliberal period. It is the year after which the unproductive sectors of the economy expanded rapidly under the IMF surveillance. Re-regulation of surplus value production and increasing rate of exploitation can avoid the tensions between business groups to turn into an open conflict. Indeed, this can be labelled as the deepening of neoliberalism. Even though one claims that the accumulated money-capital was being directed to productive areas within this period (see Öztürk, 2010: 177-184), this did not necessarily mean investment into high-tech products or production of capital goods. The prominent feature of the new strategy of business groups was based on taking over important facilities, which were either private or formerly found as state economic enterprises (SEEs) such as Tüpraş, Erdemir and Telekom. Another strategy was focusing upon particular sectors. Takeovers and mergers increased. There were business groups such as Koç, Doğuş and Sabancı which preferred to exit completely from or minimise their operations in particular sectors.

Not only in production of durable and non-durable consumption goods, but also in services sector international operations and investments became much more important. Many business groups, with various degrees in the fields of finance and trade, have international investments (see Öztürk, 2010). In production as well, there was geographical expansion. All these international networks, together with the overvalued TL and regulations such as "domestic processing regime"[115] increased the prominence of imported inputs and hence the dependence on inflow of funds.

> Like their counterparts in Latin America and East Asia, the Turkish capital groups did not seem to be duly concerned by the increasing dependence on further borrowing as a means of financing the current account deficit at the macro level, and investments and/or expenditures at the micro level… What the Turkish experience highlights is that the process of financial liberalisation would not necessarily put an end to the functioning of the state as an 'asymmetric risk holder', whilst the mechanisms that have tended to socialise the risk for the entrepreneurs might be changing (Yalman, 2004: 21-22).

The survey of the developments within the last three decades and a summary of the stylised facts about the growing importance of financial sector within Turkish economy enable us to portray "strategic selectivity" of the state in brief terms. As discussed in the fourth chapter the state impacts upon strategies and capacities of different political forces and social classes. The ways in which this differential impact takes place is dependent upon the struggle over policies to be pursued. This struggle takes place within and beyond state's boundaries. Economic policies of the state in particular and the restructuring of the state in general in Turkey in the post-1980 period impacted upon the strategies of business groups. Within the context of financialisation this impact on big business groups can be summarised as such:

- The aim of financial deepening and the financial liberalisation accompanied by lax attitude in taxation created an impasse of public debt in the 1990s. As the state had to offer high interest rates for GDI, it was more profitable for big business groups to resort to holding financial assets (mostly public securities in case of Turkey) rather than productive investment.

- The restructuring of the banking sector did not put an end to resource transfer to big business groups through GDI trade. But as the Ponzi scheme of the 1990s came to

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[115] This tariff regulation first took place after the Customs Union agreement in 1996. Another regulation was put into effect in 2005. Domestic processing regime enables the manufacturer to import intermediary goods that can be used in the production of goods to be exported, without being subject to tariff measures. It has been devised for increasing the competitiveness of manufacturing sector, but paved the ground for the growing dependency of exporting sector upon the imported materials.

an end, the return on financial assets declined gradually. The increase in the gross fixed capital investment of private sector depended on capital inflows. Business groups resorted to financial investment and exchange rate operations in order to hedge risk and cope with the geographical expansion of their activities.

- Post-crisis reforms explicitly aimed the integration of Turkish financial sector with the international financial system. Reform process left some groups outside of the banking sector. Reformed banking sector, however, continued investing into GDI despite decreasing returns. The sector also funded household consumption on an unprecedented level in recent years, which raised concerns on declining level of savings and the channelling of savings into productive investment.

6. 6. Conclusion

Turkish economy has undergone a dramatic transformation in the last three decades. The neoliberal mode of integration into world economy has been reinforced as much as being supplemented by growing importance of financial markets and operations in the functioning of economy. Well-developed money and capital markets were important for formation of an environment conducive to growth and economic stability according to mainstream understanding. The attempts towards creating a stable economic environment were not successful and Turkey experienced cycles of growth and crisis in the neoliberal period.

This chapter has shown that government securities dominate securities market in Turkey. The dominance of GDI, as claims on future state revenue, has led to interpretations pointing out the negative impact of public sector borrowing. Since financing public debt was the most profitable business of banking sector and private savings at home were not enough to roll over the principal and interest payments, the economy became dependent upon the capital inflows. Inflow of capital has led to further problems in conjunction with the cheap foreign currency and increasing current account deficits. To make things worse, the financial crises in Turkey added to the mountain of public debt. From a different point of view; however, public debt served as a mechanism for resource transfer to business groups. This mode of financial intermediation which provided high returns on financial assets was also functional for conglomerates refraining from industrial investment.

The yields of financial assets in general and GDI in particular declined significantly in the last decade. Despite this decline, the monetary policy of government and the growing integration with the international financial system provided new channels for business groups. The relatively high ratios of fixed capital investment to GDP in the aftermath of 2001 crisis did not bring about significant increase in the share of manufacturing sector within GDP. Considering the stylised facts, it seems meaningful to suggest that financial deepening and liberalisation did not lead to stable and higher rates of growth for the economy but to the financialisation of accumulation in Turkey.

It has been argued in this chapter that, it seems proper to claim, financialisation in Turkey proceeded through trade of and speculation on government securities. Neoliberal mode of integration into world economy supported the minimization of the role of public sector in the economy, whereas financing public debt provided remarkable returns to private funds, parts of which were liabilities to international money markets. Not only the high yields in the 1990s and 2000s but also the restructuring of the financial arm of the state, and particularly the restructuring of the Treasury, in line with the aim of financial deepening has contributed to financialisation. From all this follows that the debate on financialisation should take into consideration that the government securities play a remarkable role in the financialisation of "emerging market" economies such as Turkey. *Financialisation of the state* in Turkey will be discussed in detail in the next chapter with particular emphasis on the policy of debt management.

CHAPTER VII

REFORMULATION OF STATE-FINANCE NEXUS IN TURKEY IN THE POST-1980 PERIOD: ON GOVERNMENT DEBT INSTRUMENTS MARKET AND THE POLICY OF DEBT MANAGEMENT

7. 1. Introduction

The review of political and economic developments in Turkey in the post-1980 period reveals that neo-liberal economic policies had given way to high volatility in economic performance. Despite the severe economic crises in the post-financial liberalisation era, the commitment of policy makers to neoliberal prescriptions did not fade away. On the contrary, different waves of regulation had contributed to the consolidation of neoliberal orientation. Financial instability and the formation of the much criticised regulatory framework went alongside the attempts to overcome the problems arising from the liberalisation of the economy and the growing public indebtedness. The continuity in these attempts can be seen as part and parcel of the reformulation of state-finance nexus so as to support the strengthening of financial sector, restructure the state in line with neoliberalism and bail-out the financial sector in times of distress and crisis. The public debt trap of the state in the 1990s was not incongruent with the pursuance of mentioned targets; on the contrary, it can be grasped as a facilitator, in its own way, of the financial deepening and proliferation of financial motives. The financialisation of Turkish economy firstly revealed itself in the 1980s and 1990s in the declining ratio of manufacturing investment to GDP and preference of banks to invest in GDI. The public debt trap gave a particular flavour to the financialisation in Turkey. It also paved the ground for restructuring of the financial arm of the state, as can be seen in the foundation of BRSA, operational autonomy of the CB and the reform in public debt management. In the aftermath of the 2001 crisis, on the other hand, declining real returns on GDI and the rollover ratio contributed to the tendency of commercial banks to focus on consumer credits. During this decade, by way of subordinating itself more and more to the performance standards demanded by IFIs and financial market participants, the Treasury aimed to decline the rollover ratio and provide a more stable environment for expansion of the financial markets.

In order to support the argument, this chapter will start with a brief history of the domestic public debt issue, and then go over the legal regulations in the post-1980 period in the third section. The fourth section will analyse the GDI market in Turkey and review data on debt stock, trading volumes and interest payments on debt. The last section will restate the dynamics of financialisation in Turkey and explain the *financialisation of the state*, or the reformulation of state-finance nexus in Turkey in the post-1980 period with reference to the construction and deepening of financial markets, the reorganisation of state's financial apparatus through financialisation and the socialisation of the losses of the financial sector by the state.

7. 2. Historical Overview

7. 2. 1. Republican Period until 1980

An historical overview of public debt is important to point out the similarities and differences with GDI market of previous periods. In the early republican period, the first attempts for domestic borrowing derived from the need to finance railway projects. While the aim was to finance the railway projects in the 1930s, the main motive was to strengthen defence capability in the 1940s (Kirmanoğlu, 1998, for details see Arsan, 1961). The low levels of public debt in this era could not avoid the emergence of a debt problem in the aftermath of Second World War. Democrat Party governments after the 1950 used foreign aid and credit for developmental purposes. As a result, as Emil (2003: 40) states the foreign debt stock reached from 400 million USD at 1950 to 1,1 billion USD in the mid-1950s.[116] The government could not roll over the debt in the face of worsening economic conditions and had to declare a moratorium in 1958.

[116] Foreign debt stock according to Ministry of Development, Economic and Social Indicators 1950 – 2010 was 373 million USD in 1950 and 992 million USD in 1960. It is not possible to infer total amount of public debt within the data. Ferhat Emil (2003), the deputy undersecretary in the Treasury at the time of referred presentation, maintains that the foreign debt stock declined after 1959.

Since it was explicitly stated in the Article 26 of 1924 constitution, National Assembly had to promulgate laws for issuing bonds in those years. Aside from these laws, the budget laws from 1947 onwards included an article that specifically enabled the governments to borrow in order to pay for the budget deficits (Arsan, 1961: 126). It was also the legal obligation for banks to invest 20 % of the deposits and 5 % of their reserves into government bonds in the 1950s (Emil, 2003: 38). It is not possible, however, to talk about an organised GDI market in the 1950s. SEEs used government bonds or promissory notes guaranteed by the then General Directorate of Treasury in their purchases and banks held large amounts of public debt because of the legal obligations. Governments also issued bonds for paying services (known as contractor bonds) and financing new investment (investment bonds). The bonds issued by the government, however, were discounted at the CB. The fact that the Treasury used short term advances from the CB (Arsan, 1961: 182-183) should also be taken into consideration. This was made possible by the legal change in 1955, which made it possible for Treasury to resort to the CB resources, in the form of short-term advances (Akçay, 2009: 183-184). It seems legitimate to claim that the CB functioned more like a development bank within the economic system at that time (see Emil, 2003).

Emil (2003) claims that the 1960 coup d'etat and the interregnum had its reflections in the debt management so that an upper limit has been imposed upon the use of short-term advances by the Treasury. The expenditures of municipalities became subject to the approval of the Treasury in this interregnum. The ratio of public debt to GNP, however, rose significantly. This should be rather seen as the acknowledgement of debt in the Treasury books. After the conversion of previous public debt to long-term government bonds and the consolidation of debts of public institutions, the ratio of public debt to GNP has risen to 18 % in 1961 (Emil, 2003: 42).[117]

[117] An interesting attempt for domestic borrowing in order to support developmental targets came with the introduction of Saving Bonds (Tasarruf Bonoları) in 1961. These offered a premium of 6 %. It was mandatory for all legal entities and those who had a taxable income to allocate 3 % of their revenues for the purchase of these bonds (Emil, 2003) and it was forbidden to sell them in the first five years. Since people with financial difficulties had to sell them, these bonds were exchanged with significant rates of discount in the secondary market. The speculative nature of these operations

Financing public expenditure by the use of the CB money remained solid until the 1980s. Within such a mechanism, either the SEEs used the CB resources and their debt was later assumed by the Treasury (as seen in 1971, 1974 and 1978 debt consolidations) or state branches such as General Directorate of Highways used bonds with the Treasury guarantee and these became part of the domestic public debt in due course. While servicing the debt accumulated via Saving Bonds was of negligible importance in the 1970s, the consolidated debt and the bonds with the Treasury guarantee accumulated significantly. Thanks to the growing amount of debts of SEEs and the municipalities, the consolidated debt reached from a low 9,6 billion TL in 1974 to 122,1 billion TL in 1980. The volume of debt accumulated by the issue of bonds with the Treasury guarantees has reached to 58,3 billion TL in 1980 (Kirmanoğlu, 1998: 211).

Balance of payments problems became much more severe due to the oil crisis and the growing instability in Turkish economy in the second half of the 1970s. By the use of CTLD, Turkish banking system found a safe haven under the guarantee of the CB (see Artun, 1980). CTLD was another method of external borrowing with unfavourable terms and increased the dependency of Turkish banking system and economy to the international finance. Eurodollars and petrodollars of the new "privatised international monetary system" (D'arista, 2005) found their mainstay within the borders of Turkey in the form of CTLD. As Artun (1980: 199) notes, Turkey, as part of 1978 rescheduling agreement with the IMF, had to perform negotiations with 8 of the biggest banks representing 220 foreign banks in late 1978, in order to determine the terms and conditions for the deferral of debt arising from the use of the mechanism of convertible accounts.

7. 2. 2. Post-1980 Period

The process of the liberalization of the economy and the structural adjustment programmes had impacts upon the public debt. The changing form of the intervention into the economy put an end to the pricing policy of SEE outputs in

forced the authorities to replace this form of borrowing with a financial balance tax in 1971 (Kirmanoğlu, 1998).

order to support the industries that would use these as their inputs. This had led to a decrease in the financial burden of SEEs and the use of the CB resources to finance their deficits (Kirmanoğlu, 1998: 211). Another important development was the debt relief provided by IFIs and OECD countries. This came to an end in 1984 and increased the debt service burden of the country dramatically within a few years (see Celasun, 1990; Rodrik, 1990; Türel, 2000).[118]

The need for domestic borrowing and servicing external debt paved the ground for new regulations, which will be dealt in detail in the next section. In 1985, the Treasury started systematic auctions and the short-term government securities started to become the dominant form of securities in the financial markets. Systematic auctions can be seen as steps in the gradual move of the government toward bond financing. This gradual movement was a reflection of the policy preferences in the post-1980 period. “After the liberalization of the capital account in 1989 bond finance has turned out to be almost the single most important component of financing deficits” (Türel, 2000: 185). As summarised by Akyüz, regarding the 1980s (1990: 102):

> The public sector has become the single most important supplier of securities as the financing of its deficits has been shifted from Central Bank to private markets. The maturity of government bonds has been shortened and weekly auctioning of Treasury bills (largely to banks and to a lesser extent, stock brokers) has become a major source of finance since the beginning of 1984. Government securities are exempt from withholding tax, and their yields have, on average, exceeded those on other domestic financial assets. They are held against liquidity requirements by commercial banks, and used as collateral in the interbank market.

The debt dynamics have produced a “Ponzi scheme” in Turkey the aftermath of financial liberalization (Boratav et al., 2001) as discussed in the sixth chapter. The ratio of the interest payment to the consolidated budget expenditures has increased significantly in the 1990s and produced a vicious circle in public finance

[118] Rodrik (1990: 186) counts several reasons: “First the real deprecition of the lira continued to deteriorate the debt-output ratio. Second, the rate of export expansion slowed down somewhat after this date. Third, the depreciation of the dollar beginning in early 1985 inflated the dollar value of the portion of debt denominated in other currencies (mainly DM and Japanese Yen). Fourth, debt relief was phased out and the rescheduled liabilities started to come due. Finally, and perhaps most ominously, there was an increased reliance on short-term debt.”

(Kirmanoğlu, 1998). Borrowing through market mechanisms did not bring about an effective debt management.[119] As mentioned by Güzelsarı (2008) the restructuring of the financial administration in the post-1980s had led to Treasury's coming into prominence. Oğuz (2008: 168) labels the process of reorganisation of the Treasury as the creation of "a neoliberal specialised economic apparatus". The restructuring should be understood as reflection of a series of transformations in the debt management and monetary policy.

The restructuring of the state had given an extended power to the Treasury and the executive branch. Not only the executive branch was strengthened *vis-à-vis* the legistlative branch in the 1980s but also an alternative bureaucratic apparatus in close relation to the Prime Ministry was created (Oğuz, 2008: 163-170). The Treasury was the primary institution in this restructuring process, which gave extended powers to the Prime Ministry. This restructuring was also symbolised in the budget law in 1985 which made it possible for the administration to borrow more than the budget deficit without any parliamentary approval (Karakoç, 2003: 67, Güzelsarı, 2008: 139). In terms of debt management, public debt was not considered as an instrument for supporting developmental purposes any more. On a more general level, debt management was considered as a field in which the integration into the world economy and the international financial markets should be supported by playing according to the market rules.

On the other hand, the interbank money market that started functioning in 1986 and the OMO performed by the CB starting from 1987 onwards symbolised the transition to a new monetary policy. Rather than direct intervention to the portfolio of the banks and using selective credit mechanisms, the control of the reserves of the banking sector became the means in this new monetary framework (see Akçay, 2009). To avoid the use of the CB resources for other purposes, the Treasury and the CB signed a short-lived protocol that put limits on short-term advances in 1989. The

[119] Given the debt burden of the Treasury, there were attempts to borrow from international capital markets. Standard & Poors and Moody's gave investment grade to Turkish public securities in the year 1990 and Turkey started to borrow in the Yankee bond market. Turkish governments also borrowed huge amounts in Tokyo in the Samurai bond market in the early 1990s. See Doğan, Z. (1990, February 8) "Hazine'nin borcu 66 trilyon", *Milliyet*.

second protocol in 1997 restrained the use of short-term advances and paved the ground for the legal change in 2002 sanctioning such an operation.

It is not possible, however, to suggest that these regulations had produced the desired effect: an effective debt management by which the Treasury borrowed from money and capital markets under favourable conditions and faced no problems in debt service. Domestic debt stock increased through the late 1990s, the fragility of banking sector intensified and the severest financial crisis in the history of the country occurred under the IMF supervision of the reform attempts. As mentioned also in the sixth chapter, the Treasury had to assume the losses of the banking sector in the aftermath of 2001 crisis. Despite the decline in the ratio of public debt to GDP in the decade following the 2001 crisis, the public debt stock of Turkey continued to increase (S. Sönmez, 2009). Although the return on GDI has declined significantly in the last decade, the total debt stock has reached to 352 billion USD in 2010.

7. 3. Legal Regulations and Reforms in the Post-1980 Period

One can denote with respect to three decades, three waves of legal regulations concerning the functioning of the Treasury and its relations with the bank-based financial sector in general. In 1983, the Treasury became an undersecretariat as a new branch accounting to the prime minister and with central importance for the economy in general. This was accompanied, in the mid-1980s, by a fundamental change in the instruments of monetary policy. In the 1990s, the structure of the Treasury was consolidated. Thanks to the debt trap and the promotion of restrictive monetary policies, the short-term advances from the CB resources used by the Treasury became a matter of greater concern but it was only with the third wave in the late 1990s and early 2000s that the policy of debt management found its final legal form. The supervision of banking sector was transferred to a new regulatory agency and relations between the Treasury and the CB were reshaped.

The Treasury was organized as a general directorate within the Ministry of Finance before 1983. The name of this directorate was Organisation of Treasury and

International Cooperation between 1961 and 1983.[120] With the decrees with the power of law no. 188 in 1983 and no. 232 in 1984, the Treasury was organized as an undersecretariat accountable to the prime minister or the minister of state determined by the prime minister. The newly formed undersecretariat was also in charge of foreign trade. While the Ministry of Finance remained in charge of the administration of the real estate which belonged to state, the Undersecretariat of Treasury and Foreign Trade (UTFT) was assigned to dealing with the issues related to borrowing by the state and debt service (Eğilmez, 2007: 39). The foundation of undersecretariat meant the formation of a dichotomous structure since the revenue administration was separated from borrowing in institutional terms. Reorganization of the institutions of public finance had immanent relation with the policy change in debt management in the sense that the new orientation was to borrow from money and capital markets *via* regular auctions to finance public expenditure.[121]

The decree with the power of law no 178 that was promulgated on the same day (14.12.1983) with the decree with the power of law no 188, was about the structure and tasks to be performed by the Ministry of Finance and Customs. The rationale for the abolishment of the Ministry of Customs and Monopolies and the unification of customs management with the management of state finance was to create a harmonious structure that would also perform financial services. It was specifically mentioned that the revenues should be gathered and controlled by one ministry.[122] This decree should be seen as a reflection of the decision of the newly founded Özal government to reorganize the structure and functioning of the ministries. During the

[120] Before 1961, the Treasury, the CB and the Amortisation and Credit Fund were in charge of debt management. Amortisation Fund was founded in 1935 with Law no 2794 and it was later transformed into Amortisation and Credit Fund in 1953. Fund had a capital amounting 250 million TL at that time and was under the control of the Ministry of Finance. It turned into a credit institution funding SEEs, but could not change the mechanism through which the SEEs met their needs by using the bonds under the guarantee of the Treasury and receiving the money from the CB resources (see Arsan, 1961).

[121] See Çölaşan, E. (1985, January 28) "Hazine Müsteşarlığı'nın yetkileri arttırıldı", *Milliyet*; It was explicitly stated by policy makers that the ultimate aim was to construct a well-functioning financial market. See "Erdem: Borsalar uluslararası olacak" (1985, March 8), *Milliyet*; "1988 için üç hedefimiz var" (1985, May 2) *Milliyet*; Birler, H. (1985, May 29) "Serbest faize ilk adım", *Milliyet*. Start of regular auctions should be located within this context.

[122] See "Maliye ve Gümrük Bakanlığının Teşkilat ve Görevleri Hakkında Kanun Hükmünde Kararnamenin Gerekçesi", T.C. Maliye Bakanlığı Personel Genel Müdürlüğü (ed.) (1998), *Osmanlı'dan Günümüze Maliye Teşkilatı ve Görevleri Mevzuatı*, vol. 2, 1789-1791.

military regime, while Turgut Özal was the deputy prime minister, the decision by the council of ministers on the reorganization of ministries had no such intention to reorganize the ministries so as to create new structures that would allegedly increase the effective management of public finances.[123]

While the decree with the power of law no 178 had determined keeping records of state accounts and performing as the responsible branch for overseeing revenues and expenditures of the state as the tasks of the Ministry of Finance and Customs, decree with the power of law no 188 determined the newly founded UTFT as the branch in charge of performing the services related to the cash flows and domestic and foreign debt service (Official Gazette, 14.12.1983). It was also explicitly stated in the second article of the decree that UTFT was supposed to draft policies regarding the functioning of banking sector and capital markets as well as to supervise the implementation of policies related to the financial sector. The Department of Banking and Foreign Exchange, for example, was expected to evaluate the domestic and global economic developments in order to render financial sector more efficient. The tasks of the departments of UTFT and the tasks of undersecretariat, as stated in the decrees with the power of law in general, support the argument that the new undersecretariat was founded as a nodal branch in terms of the relations between state and the financial sector.

The problem with these decrees with the power of law, apart from the *decretismo* (rule by decrees) which had drastic consequences in terms of the strengthening of the executive branch of the state, is that the UTFT was designed as a central branch under the office of prime minister and its functions collided with the functions of other ministries and state institutions. This was a matter of concern in the meetings before the decrees with the power of law no 188 and 232 became a law (Law no 3274) with minor changes, after the approval of the national assembly in 1986. This problem of duplication was addressed by the representatives of opposition parties. It was also claimed that the transfer of the tasks to an undersecretariat with no political accountability rather than a ministry would contradict with the constitutional

[123] See "Bakanlıkların Yeniden Düzenlenmesi ve Çalışma Esasları Hakkında Bakanlar Kurulu Kararı (27.2.1982)", T.C. Maliye Bakanlığı Personel Genel Müdürlüğü (ed.) (1998), *Osmanlı'dan Günümüze Maliye Teşkilatı ve Görevleri Mevzuatı*, vol. 2, 1759-1768

principles.[124] It is noteworthy that no concern on the changing policy of debt management was voiced in those meetings of the commission and it seems rather striking that the public debt was no longer understood as a vehicle for supporting developmental purposes. Public debt management was rather conceived, as also reflected in legal regulations and in parallel with the neoliberal orientation, as coping with public finance problems while pushing forward the financial sector itself for financing investment and hence GDP growth. UTFT was expected to supervise financial sector and evaluate domestic and global economic developments in light of this explicit aim.

In the year 1985, it was stipulated in the budget law that the administration could borrow up to two times the amount of deficit in the respective year. Karakoç states that (2003: 67-68) the right to borrow has been transferred to UTFT in explicit terms in the article 37/a of the 1987 budget law.[125] This remark suggests that it became possible in legal terms for the executive to borrow more than the amount determined in the budget approved by the parliament and the inability of the legislative to control the financial operations performed by the executive to that end.[126] After UTFT started regular auctions in 1985, this method of borrowing started to gain pace in the following years. It became an alternative method for financing public sector alongside the use of the CB resources.[127] Organizing auctions for the government securities was accompanied with a change in terms of monetary policy: from intervening into the portfolio of private and public sector to the control of

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[124] See "Plan ve Bütçe Komisyonu Raporu (28.3.1986)", T.C. Maliye Bakanlığı Personel Genel Müdürlüğü (ed.) (1998), *Osmanlı'dan Günümüze Maliye Teşkilatı ve Görevleri Mevzuatı*, vol. 2, 1859-1863.

[125] Arsan (1961) documents the growing domestic debt in the early republican period. As mentioned, special laws for borrowing had to be promulgated or the budget laws had to grant authority for borrowing according to the amount of deficit in the respective year within this period.

[126] The limits for borrowing was clearly defined only in the aftermath of the 2001 crisis and the promulgation of Law no 4749, interview with the Former Undersecretary of the Treasury (2001-2003), interviewed on 28. 12.2011.

[127] The idea of regular auctions and borrowing from money and capital markets signifies a new stage in the imposition of monetary discipline upon the public debt management. This idea had been supported by the resolution, or to put in more cynical words, the deferral of the international debt crisis of the 1980s. It is well known that the transformation of the liabilities of the debtor countries to assets exchanged in the international financial markets was the explicit aim of the Brady bonds (Vasudevan, 2009). The attempts to resolve the international debt crisis had paved the ground for the growing importance of credit rating agencies and borrowing from international financial markets.

money through regulations in the required reserve ratios (Önder quoted in Akçay, 2009: 202).

The use of "required reserve ratios" as an instrument of monetary policy from 1986 onwards was accompanied by the foundation of interbank money market. The limits of banks operating in this market were determined according to the bonds and bills submitted to the CB as collateral (Dumlu, 1998). OMO on the other hand starting from February 4, 1987 were used as means for controlling liquidity within the financial system. The purchase of GDI and reverse repos (repurchase agreement) were used to increase the liquidity, while the sale of GDI by the CB within the market and repos were used to decrease the level of liquidity (Dumlu, 1998: 202).

Despite the OMO and the attempts for deepening of the secondary market of GDI, the use of short-term advances by the Treasury continued as a problem since more and more CB resources were used by the Treasury with no returns. Since domestic savings were not enough to meet the demand for financing public deficit, the Treasury, as seen in the year 1989, had exceeded the limits of short-term advances taken from the CB (Eğilmez, 2007: 41). In 1989 the Treasury and the CB signed a protocol for limiting the use of short-term advances. According to Eğilmez (2007: 58), this short-lived protocol has laid the foundation for the implementation of a new programme by the CB.[128] Though short-lived, this protocol and the ensuing policy implemented by the CB should be evaluated as adaptation of supply-side monetary policy principles (Eğilmez, 2007: 59) and one of the several steps taken in the gradual transformation of the relations between the CB and the Treasury, so that the CB would no longer act as the lender of last resort for public finances.[129]

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[128] See "Lira 'Rüşdü'nü ispatlıyor" (1990, January 17), *Hürriyet*; "Para programı sihirli değil", (1990, January, 17), *Milliyet*.

[129] This gradual transformation was full of tensions between the ministers, governors of the CB and the undersecretaries of the Treasury. The root causes of the discussions were the autonomy of the CB, the use of short-term advances by the Treasury and the measures taken by governments squeezing the Treasury and boosting interest rates. See "Merkez Bankası'nın sahibi Hazine'dir" (1989, January 24), *Milliyet*; "Ekonomik zirvede savaş" (1989, June 8), *Milliyet*. "Hazine'nin kasası boşaldı, kavga çıktı" (1992, May 14), *Hürriyet*; "Hazine Merkez Bankası'nı Ekonomi Bakanı'na şikayet etti" (1994, February 16), *Hürriyet*, "Merkezden Hazine'ye yakamdan düş uyarısı" (1995, January 4), *Milliyet*; "Hazine'den seçim isyanı" (1995, October 28), *Milliyet*.

This orientation brought forward by neoliberal understanding, however, had significant consequences in that the debt trap, into which the Treasury entered, resulted in further rises in interest rates in the 1990s. As discussed in chapter six, it became more important for some corporate groups in the 1980s and 1990s to own banks (Ergüneş, 2008; Gültekin-Karakaş, 2009). These would also mean increased control over the financial resources. The liberalisation of capital account in 1989 with decision of the council of ministers consolidated the position of banking sector within the financial system. The Treasury was dependent to domestic savings, the CB resources and external creditors. As intermediaries which borrowed from international financial markets and lent the Treasury, banks became Janus in the doorway of the Treasury and its access to the international financial markets.

The second wave of regulations concerning the functioning of the Treasury was seen in the 1990s. With the law no 4059 in 1994, UTFT was divided into UT and Undersecretariat of Foreign Trade. The license to borrow and determine the method of auctions and sale remained in the hands of Treasury. Minor changes were made by previous decrees with the power of law, some of which were cancelled by the constitutional court, before the promulgation of this law. It was however, this particular code which determined the structure of today's Treasury to a great extent. Accordingly, three deputy undersecretaries would help the undersecretary and eight directorates would take place within the central structure of the Treasury. Among these directorates, the Directorate General of Public Finance was in charge of executing the operations regarding domestic public debt, whilst the management of foreign debt was left to the Directorate General of Foreign Economic Relations. Duties of the Directorate General of Banking and Exchange also covered an extensive field, since preparing regulations concerning banks, capital markets, securities markets, exchange markets, financial leasing, lending and financial sector in general took place among its duties. The Directorate was to put the basic rules in order and supervise the implementation as well as monitor domestic and global developments concerning the financial sector (Official Gazette, 20.12.1994).

As it was mentioned, the protocol of 1989 signed by the Treasury and the CB aimed avoiding the violation of short-term advance limit by the Treasury. This has not turned into a structural change in terms of the use of short-term advances until the late 1990s. The new protocol signed by the Treasury and the CB in 1997, on the other hand, explicitly stated the aim of minimizing the advances used by the Treasury and abandoning the use of such advances in the near future. It was thought that the use of such advances provided a kind of blank check for the Treasury in financing public expenditure, resulting in increases of money supply. The new anti-inflationary monetary policy that was based on limiting the money supply foresaw the abandonment of the use of the CB resources by the Treasury as of paramount importance for reducing the rate of inflation (see Eğilmez, 2007: 61).

The third wave of legal regulations starting in the early 2000s and especially after the 2001 crisis is part of a multi-dimensional process of restructuring of the state-economy relations in Turkey. Not only legal changes that would have significant implications on the relations between banking sector and the Treasury were made, but also a limit to borrowing was set. The most prominent one of the changes within the set of relations between the Treasury and the banking sector was related to the supervision of the sector. The authority that would control and regulate the sector has become the BRSA which started to function only in the year 2000 (BRSA, 2001).[130] In the previous periods, it was the Treasury and the CB that jointly supervised the banking sector as a whole (see also Bakır, 2007).

The law on banks no 4389, which replaced the previous law no 3182, introduced BRSA as an autonomous organization in the year 1999. It also aimed to regulate the banking sector according to international standards. Law no 4491 promulgated on December 19 in the same year had left the authority to grant permission for the foundation banks and liquidate the insolvent ones to BRSA and completed the transition in legal sense. The scope of authority also included "special finance institutions", which in Turkey were used as the nickname of Islamic financial

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[130] See "Bankalara üst kurul Meclis'ten geçti" (1999, June 17), *Milliyet*; "Bankalar Temizel'e emanet", (1999, September 16), *Milliyet*. The transfer of banks to SDIF and liquidation of banks started in the late 1990s. The nationalisation of five banks in December 1999 has been presented as a preparation to IMF stand-by agreement and the complete restructuring of the banking sector. See "Büyük operasyon" (1999, December 23), *Hürriyet*. This restructuring, however, had its own problems. As seen in the case of İmar Bankası, a commercial bank could buy, sell, short-sell securities in capital markets without any license and keep false records for years. See "SPK herkesi suçladı" (2003, December 8), *Milliyet* and "İmarbank'ta bonocu yandı" (2003, December 17), *Milliyet*.

enterprises, within the banking system. The legal regulations concerning the banking sector and the relations between BRSA, SDIF and banking sector were promulgated also in the aftermath of 2001 crisis.[131] In order to speed up the procedure for the liquidation and reorganization of defaulting banks and also to introduce further reforms in line with the EU regulations law no. 4672 was promulgated in 2001.

These legal changes granted extensive power to BRSA. The Agency had to impose permanent surveillance upon the banking sector and had the authority to grant and cancel banking licences. As a regulatory institution, BRSA was expected to give the necessary information of the sector to the collaborating institutions such as the Treasury and the CB. The law also gave the authority to demand any information from the participants of the sector and the respective state institutions. This set of legal regulations authorised SDIF to borrow from money and capital markets with the permission of the Treasury. It was also mentioned that the Treasury could issue special debt instruments which would be used by the Fund in its operations regarding the restructuration of the banking sector. Considering the fact that 25 banks were either liquidated or restructured from 1994 to 2003, it can be grasped that the legal regulation was in line with the attempts by the Fund to decrease the number of banks and consolidate the sector according to the international standards.[132]

Another important aspect of the legal regulations of the banking is the explicit statement in legal texts that the credit limitations do not apply to the bond and bills exchange as well as to the operations conducted with the CB or the operations within the markets under the surveillance of the CB. Such exceptions to credit limitations could be read as legal reflection of the fact that a considerable amount of bank assets were being used for funding the public expenditure and it was critical for the Treasury to provide the liquidity of GDI.

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[131] Some of these reforms were formulated within the IMF stand-by agreement and promulgated in 2001 with the motto "15 laws in 15 days". According to Kemal Derviş, then minister in charge of economics, the promulgation of these laws was a precondition for receiving IMF support in order to avoid default.

[132] See http://www.raftemizligi.com/index.php for documents on the restructuring process.

The law no 5411 promulgated on the 1st of November, 2005 can be read as an extension of the former attempts for internalisation of the international standards. The law details the participants of the financial sector and adds the concepts of participation banks (previously known as special finance institutions), offshore banking, development and investment banks and defines these institutions according to the EU directives. It also regulates the BRSA and SDIF and details the claims of the Fund and the ramifications of the Fund's operations, since the bailout operations in the late 1990s and early 2000s had impacts upon numerous companies which had credit relations with these banks.[133] The law no 5411 is also concerned with the gradual adaptation of Basel II principles. These principles took their final form in 2004. BRSA started to implement some of these principles with directives. Financial Sector Commission, founded in accordance with the Law no 5411 forms the ground on which preparations for adjustment are being made and provides the information exchange between BRSA and the representatives of the sector (Türel, 2009).[134]

The use of short-term advances by the Treasury had come to an end with the law no 4651 promulgated in 2001. It was stated in the law that OMO would be performed by the CB only in line with the targets of the monetary policy, and these should not be seen as credits to the Treasury or any other state institution.[135] After the promulgation of the law no 4749 in 2002, namely Law on Public Finance and the Regulation of Debt Management, and the ensuing changes in 2008 by law no 5787, the limit for borrowing has been determined as the amount between the allowances and the expenditures determined in the budget law of that respective year. The limit mentioned in the legal text can be exceeded 5 % if the amount borrowed is found

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[133] Many companies and holdings were affected by the Fund's interventions. As of early 2010, 21000 cases were being heard regarding these liquidations, bailouts and transfers. See "Ertürk: TMSF'ye açılan 21 bin dava var, 61 bin icra takibini yürütüyoruz", 27. 01. 2010, ANKA haber ajansı, http://www.haberler.com/erturk-tmsf-ye-acilan-21-bin-dava-var-61-bin-icra-haberi/, retrieved on 23.3.2011.

[134] It has been explicitly stated that the complete adjustment of the sector to the Basel II principles will be finished in 2012 in a recent press release of the regulatory authority, BRSA. See http://www.bddk.org.tr/WebSitesi/turkce/Duyurular/Basin_Aciklamalari/9244basin_duyurusu_baselii.pdf, retrieved on September 4, 2011.

[135] Law of the Central Bank of the Republic of Turkey (1211) and the Law on Changes on the Law of the Central Bank of the Republic of Turkey (4651) can be accessed via http://www.tcmb.gov.tr/. For an evaluation, see Türel (2001).

inadequate. The limit can only be exceeded twice in the respective year. Another reform was extension of the previous attempt for presenting a transparent debt scheme to the parliament. The Treasury announced debt auctions and its programme on a monthly basis from 1997 onwards. After the new regulations, the institution had to prepare a public debt management report four times a year which would be presented to the parliament. The Treasury also prepares monthly reports and yearly evaluation reports in order to inform public. It seems legitimate to claim that the aim was to avoid criticisms about the inability of the parliament to control the debt management. It can also be suggested that announcement of the debt scheme and limits may help consolidating the perception of stability and minimize the cost of debt service in the long-term.

The wording of the law no 4749 emphasizes the need for debt management in line with the developmental aims, but it also includes explicit emphasis to macroeconomic stability and the stability and trust within the markets as points of reference for the management of public debt. One of the differences brought to the previous regulations on the organization of the Treasury and its duties relies on the inclusion of derivatives within the mechanisms to be used in debt management. Rather broadly defined as an umbrella term for all sorts of financial instruments, the law authorizes the Treasury for performing every kind of operation and to use all sorts of instruments (swaps, derivatives and so on) for rolling over debt and to keep the debt ratio on a level that would not disturb the markets. This implies that the legal base for entering into derivative transactions in the international financial market has been established. It is also significant that the way the state intervened into banking sector for the socialisation of the losses of the financial sector and supporting the restructuring of the sector itself after the 2001 crisis, has been announced as one of the mechanisms that could be used for meeting future liabilities. Considering the exponential growth of the use of derivative contracts and securities in general as collateral, it is also stated in article 12 that the securities can be used for the purpose of effective debt management. These legal changes are retrospectively interpreted as the provision of trust and transparency in the debt management.[136] Offices for risk management have been established in the Treasury in the post-crisis period in line with this aim. Also, the analysis of borrowing (middle office) and risks has been separated from both the organization of auctions (front office) and the registration of debt and accounting work (back office). The legal changes and the adoption of risk management practices are interpreted as the internalisation of international standards by a former undersecretary:

> We have made regulations with the team in terms of establishing front office, middle office and back office, which were not known in Turkey. Within this framework, there was no clear definition of public debt; we adopted international standards with the legal change (4749). The Treasury does not only deal with debt management, we also have functions concerning insurance, SEE financing and cash management. We tried to adapt to the new situation. Another point is… being the coordinator during the negotiations with the IFIs. We also played this role during the process [the implementation of *Transition to Strong Economy* programme].[137]

The review of the legal regulations in the post-1980 period delineates that there has been a considerable number of legal changes regarding the Treasury and banking sector.[138] It was explicitly stated that the rationale behind these legal changes was immanently related with the development of financial sector and the deepening of the financial markets so that the effective financing of the investments and expenditures will be realised. In other words, the liberalisation of the money and capital markets, the implementation of the international standards and the market-augmenting intervention of the state were expected to provide the emergence of a financial sector which is well integrated into international markets and contributes to the well-functioning of credit markets and the stability of the economy as a whole.

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[136] Interview with the General Director, Undersecretariat of Treasury, interviewed on 2.12.2011

[137] Interview with the Former Undersecretary of the Treasury (2001-2003), interviewed on 28.12.2011

[138] Recently the decrees with the power of law no 637 (article 38) and 662 (articles 64 to 70) included articles on the structure and duties of the Treasury. Financial Stability Committee has been established with the decree with the power of law no 637. This committee is composed of the heads of the UT, the CB, CMB, SDIF, BRSA and the Ministry of Economics. It is expected to develop policies for systemic risk management in order to avoid or minimise financial volatility.

7. 4. The Issue of Public Debt Reconsidered

7. 4. 1. GDI Market

GDI market is composed of the primary and secondary markets for the public securities. Primary market is the field where the monopoly issuer, the Treasury auctions the debt securities. The borrower and the lender enter into direct transaction in the primary market. On the other hand, secondary market for the public securities is the field where these valuable papers are exchanged. Debt instrument gets stripped of its elemental character of symbolising debt and turns into a vehicle for investment in the secondary market. The development of a secondary market for GDI is important as the desire of market actors for lending money to government increases in parallel to the possibility of turning the debt instrument into cash at any time.

In Turkey, the organised secondary market for GDI is Bonds and Bills Market which takes place within the ISE. The market started its operations in 1991, before this year, the market had ISE as the registering agency of those transactions taking place out of the stock market. As it is known despite the regular auctions of the Treasury from 1985 onwards, the secondary market for GDI was relatively underdeveloped in those years.

In his proposal for the reorganisation of the government securities markets, Ersel (1990) summarizes the structure and operations within both primary and secondary markets in the 1980s. Accordingly, although the auctions were open to everyone, guarantees needed to take place in the auction favoured the banks, since financial sector was dominated by banks. Banks had to hold significant amount of GDI for regulatory purposes. This is one of the three major reasons why banks invest into GDI. For Ersel (1990: 6) “a cautious interpretation... indicates that, in 1988, banks were holding around 60% of the total stock of government securities, mostly for regulatory purposes.” The second reason for the demand of banks had to do with their own investment preferences. Banks invested huge amounts to GDI, since selling these valuable papers with good returns in the secondary market was an option even in the 1980s. The third reason is that banks play an intermediary role within the financial system. Either NFCs may demand government securities and use banks as intermediaries or GDI are used as collateral in repo agreements. These repurchase agreements functioned as cheap sources of finance for NFCs. In the words of Ersel (1990: 12) "It is estimated that almost 70 % of all transactions on government securities [in the secondary market] are repurchase agreements between banks and non-financial corporations."

Ersel's account reminds that among banks, firms and individuals, within the market of public securities, banks had an advantageous position and dominated the secondary market as well. The underdevelopment of the secondary market would be detrimental mostly for the Treasury from a market-oriented liberal perspective as it would condemn the sole issuer to borrow under unfavourable conditions, such as the lack of a competitive market with diverse actors.[139]

This may be grasped as one of the reasons why the restructuring and the deepening of the secondary market was of importance to monetary policy makers.[140] Sub-markets have been opened and regulated in line with this aim in the early 1990s and in 2009-2010.[141] Nevertheless, GDI trade has dominated the Bonds and Bills Market from its inception onwards and as shown in the previous chapter the role of banks as key financial intermediaries persisted.

7. 4. 1. 1. Primary Market and Primary Dealership

In the primary market, the Treasury declares auctions on the last work-day of the week before the auction will be made. Types of bonds and bills that will be sold are written in detail in the information notes of the Treasury. There is no legal

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[139] Some of the interviewees explicitly criticized the privileged positions of banks. According to one interviewee, the online sale of GDI is particularly important as it will bring more favourable conditions to the Treasury. Interview with the Department Head, Undersecretariat of Treasury, interviewed on November 28, 2011

[140] It was also the growing debt burden of the Treasury that resulted in various attempts (many of them failed) to change the methods in auctions. See "İç borçta yeni yöntem" (1992, December 28) *Milliyet*; "Hazine ihalelerinde sistem değişiyor" (1994, January 6), *Hürriyet*; Erel, N. (1996, January 20) "Borçlanmada Salı modeli", *Milliyet*.

[141] See http://www.ise.org/Markets/BondsandBillsMarket.aspx

restriction on joining the auction, however, banks and other financial intermediary institutions are the major bidders. The CB acts as the financial agent of the Treasury within the process and submits the proposals of the bidders to the Treasury. Public institutions and the primary dealers have the opportunity to bid at average price after the auction or bid at non-competitive price before the auction. The Treasury meets the demand for government securities by public institutions. This is not the case for the bidder banks which are at the same time primary dealers. Only a part of their demand is met at non-competitive prices and they have to take place at the auction to meet the rest. (see TSPAKB, 2011).

The bids are sorted out in a descending order and the Treasury determines the minimum price it can accept. All the bids that remain above the minimum price determined are approved in the multi-price auction method that is being used by the Treasury. Accordingly, the bidders can buy the bonds and bills at the price they submitted, which, of course, differs for every bidder. In the single-price method, which was being used from time to time, bidders could buy the bonds and bills in accordance with the minimum price determined by the Treasury.

The Treasury can also organize direct sales to public institutions and financial institutions as well as perform public offerings *via* financial intermediaries, in order to extend the base of lenders (see TSPAKB, 2011). It is known that this method was used by the Treasury in the 1990s in order to gather the savings that remain outside the financial system. Another temporary solution to problem of debt rollover was found in the use of the money accumulated in the extra-budgetary funds. As this has led to the increase of the debt stock and formed a threat to budgetary discipline these funds have been liquidated in the aftermath of 2001 crisis. Nevertheless the use of extra-budgetary funds in terms of debt finance continued in the 2000s with the foundation of the Unemployment Insurance Fund in 2003 and the use of the money accumulated within the fund for debt finance. Vardar (2007: 76-77) mentions that thanks to the Fund's non-competitive bids, as of 2005, it occupied the place of most important financier of public debt among the public institutions.[142] The financing of public debt in such a way eases the pressure upon the Treasury.

An important transformation in the organization of primary market is the implementation of the system of primary dealership.[143] Those banks that sign a contract with the Treasury assume the title of primary dealer and benefit from the advantages provided. Primary dealer banks can take place at the auctions without paying collateral, submit non-competitive bids and can buy GDI after the auctions up to 40 % of their total bids that remained above the average price formed at the auction. A commercial bank that assumed the title of primary dealer, according to the primary dealership contract of 2010-2011, has to buy specific amounts of GDI issued by the Treasury. For three months period the minimum figure is found by dividing 60 % of the issued GDI to the number of primary dealers. For one month, the figure is reached by dividing 36 % of GDI issued to the number of primary dealers.[144]

Primary dealership is designed as a system that provides a link between the primary market and the secondary market. Within the Bonds and Bills Market, primary dealers have to issue quotations, according to specific regulations, in order to support the liquidity of government securities. This is thought as an additional factor to avoid instability within the secondary market, since the price difference between purchase and sales tend to increase and the market becomes volatile in times of financial distress (see Vardar, 2007). Primary dealers hold significant amounts of

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[142] According to monthly bulletin of Unemployment Insurance Fund (August 2011, http://statik.iskur.gov.tr/tr/iobe/iobe/%C4%B0%C5%9Fsizlik%20Sigortas%C4%B1%20B%C3%BCl teni.pdf retrieved on September 6, 2011), total assets of the Fund is over 50 billion TL. More than 95 % of the assets are invested into GDI. 25,89 % of these assets are discounted bonds and 70,56 % of the assets are bonds with coupon payments. The use, for debt rollover or increasing budget revenues, of funds originally designed for supporting poor and unemployed is not new. Şenses and Koyuncu (2007) report that the incomes of Social Assistance and Solidarity Fund (SASF) was trasferred to the general budget after the crises. 74 % of the income of SASF in 1994, and 40 % in 2001 has been diverted to the general budget of the government.

[143] Primary dealership was introduced in 2000 but the system was removed for a brief period due to the demands from banking sector in 2001. See "Piyasa yapıcısı bankalar sıkıntıya girdi" (2000, November 23), *Milliyet*; "Piyasa yapıcılığı tartışılıyor" (2001, January 27), *Milliyet*.

[144] See www.treasury.gov.tr

GDI in their portfolio and try to keep the margin between purchase and sale prices narrow.

7. 4. 1. 2. Secondary Market

Fixed income government securities, FX denominated GDI and debt papers with coupon payments are traded within the Bonds and Bills Market. Liquidity certificates issued by the CB and the certificates issued by Privatization Administration and Housing Development Administration, both of which are organized under the prime ministry; and the securities approved by the board of ISE are also traded in the same market. Despite the fact that secondary market is thought to include private bond market, the virtual lack of private bond transactions in Turkey turns the market into one in which the GDI trade occupies almost the entire market. The growing volume of share trade, on the other hand, within the ISE avoids the term "secondary market" to connote GDI market itself. Bağcı (2001) mentioned that a significant amount of GDI trade was performed in over-the-counter (OTC) market, i.e. not within the organized secondary market for government securities.[145] An account for secondary market should also take into account OTC transactions, which are registered in ISE after the transaction. The trading volume, however, within the OTC market declined significantly in the aftermath of the 2001 crisis and the "secondary market for public securities" refers mainly to the ISE Bonds and Bills market (see Figure 7.1.).

The computerised transactions within the Bonds and Bills Market are performed by the CB and the banks and financial intermediary institutions, which receive license from CMB. A limit for operations is determined, by the Directorate of Bonds and Bills Market and ISE, for each bank and intermediary institution with respect to their resources and trading volumes in the previous periods. The actors within the market

[145] Bağcı (2001) suggested that the computerization in the secondary market would tend to minimize information asymmetries. The submission of securities to Takasbank rather than the CB and the flow of information on market to market actors would increase the amount of trading volume in the Bonds and Bills Market. It would also mean the deepening of the market and contribute to its functioning on a smoother basis, which would in turn mobilize the savings. These reforms proposed by Bağcı (2001) were implemented during the process of reorganization of the secondary market in the 2000s. To what extent these, together with the deepening of the market, had positive impact upon the sustainability of public debt, however, remains a matter of debate.

obtain information on counterparty once the sale or purchase order is realised. Performed transactions are registered and the ratios are announced on the same day in ISE bulletin (for details, see TSPAKB, 2011).

After the diminution of the market for asset-backed securities in 1997,[146] stock shares and GDI remained as the basic securities for investment in the securities market. Trading volume in the ISE, under these conditions were mainly determined by the trading volume of GDI. The composition of secondary market operations, secondary market in the extended sense that includes share transactions, on the basis of the issuer started to change only in the mid-2000s.

Bulletins prepared by CMB indicate that the trading volume of private securities, mainly composed of share transactions, had, over the time, reached to and passed the trading volume of public securities. Possible deepening of private bond market and the decreased levels of domestic public debt may alter the protracted domination of public sector securities in the Bonds and Bills Market.[147] The trading volume in the OTC market increased in parallel with the trading volume in the Bonds and Bills Market in the 1990s. Financial crisis of 2001 led to a severe contraction. According to The Association of Capital Market Intermediary Institutions of Turkey (TSPAKB, 2002: 32) the daily trading volume in the OTC for fixed-income securities had declined from 8,5 billion USD in the beginning of 2001 to 1,5 billion USD at the end of that year. After several years of stagnating it raised to 2,2 billion USD in 2007.[148]

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[146] Öcal (1997) states that commercial banks issued asset-backed securities since it provided a cheap source of finance. After the regulations and the equalisation of the required reserve ratio for deposits and the asset-backed securities issued by banks, the latter became an expensive source and this paved the ground for the sudden stop in issuance in 1997. In order to support the financing of housing by financial institutions (by way of providing new sources of finance for financial institiutions that will compensate the mismatch between maturity of deposits and the credits in the banking sector) issuing asset-backed securities has been re-regulated in 2008. See the statement by CMB, "Varlık Finansmanı Fonlarına ve Varlığa Dayalı Menkul Kıymetlere İlişkin Esaslar Hakkında Tebliğ", *Resmi Gazete*, no 26980, 27.8.2008, http://www.spk.gov.tr/apps/teblig/displayteblig.aspx?id=337&ct=f&action=displayfile&ext=.pdf&submenuheader=null, retrieved on August 23, 2011.

[147] TÜSİAD (Turkish Industry and Business Assocation, 2005) compiled suggestions and proposed reforms for the development of capital markets and underlined the importance of proliferation of financial instruments for hedging risk.

[148] See monthly statistical bulletins of CMB, http://www.spk.gov.tr/

As Figure 7.1. indicates OTC lost its share relative to the organized secondary market in the 2000s. Total trading volume, however increased regularly until the impact of 2007-2009 crisis is felt in Turkey. Increases in the trading volume can be taken as a sign of deepening.

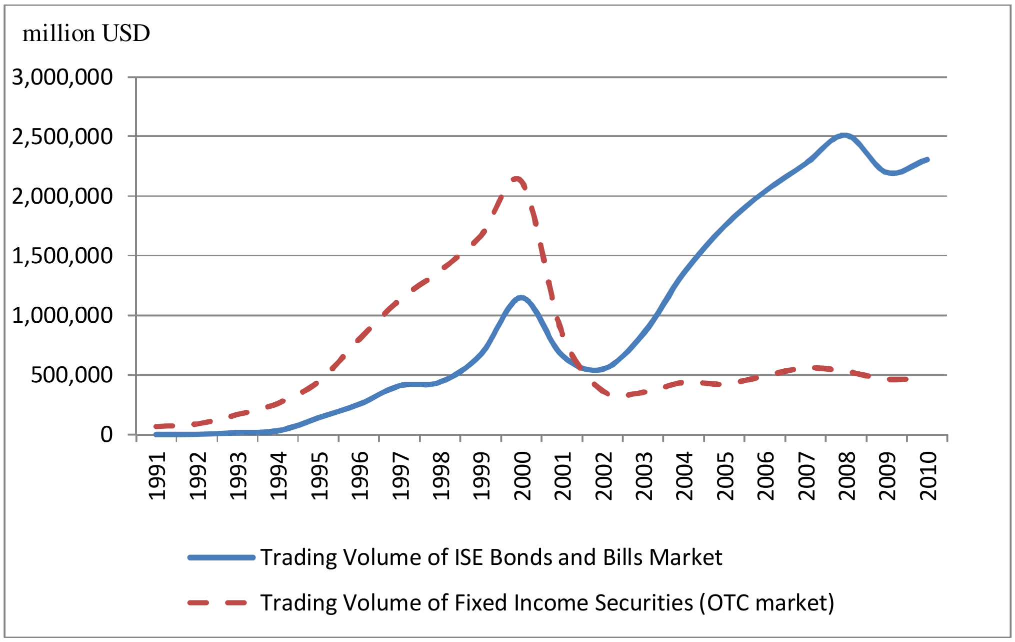

Figure 7.1. Trading Volumes in the Secondary Market in the 1990s and 2000s

Source: CMB, Monthly Statistical Bulletins

In the aftermath of 2001 crisis, the trade in shares in the ISE are performed solely by financial intermediary institutions. It should be reminded that some of these intermediary institutions are branches of commercial banks licensed for stock market operations. When it comes to Bonds and Bills Market, banks overwhelm other financial intermediary institutions.

Another major actor in the secondary market for government securities is the CB which conducts OMO. Since the gradual decline of the direct financing of public debt by the use of the CB resources in the 1990s and legal sanctions in 2002, OMO have been the major mechanism through which the CB contributes to the financing of public debt. The CB buys the public securities in the hands of banks at discount prices, also engages in repo transactions. Deposit purchase (*mevduat alımı*) and issuing liquidity certificates are also counted as types of OMO used for controlling money base and avoiding volatility in the financial sector (TSPAKB, 2011).

The portrayal of secondary market for GDI as the one in which short-term behaviour based on maximising profits marks every action of the market actors, will miss a significant element of the operations within the market. Hardie (2007) in his discussion of the "financialisation of the government securities markets" in Turkey, argues that the intermediary banks, which are themselves investors in the secondary market are exposed to government bonds so much that market exit seems unthinkable. Short-selling of Turkish government bonds even if keeping them in their portfolio incurs significant losses may not be preferred by banks, as reputation carry great significance for these secondary market actors. One of the deputy general managers interviewed by Hardie puts in explicit terms:

> I can't act like a hedge fund... I can't…[sell short when Turkey is hit by an earthquake], the hedge fund can do that, and he wouldn't care less if the news on the Turkish papers, saying that they have shorted the market after the earthquake...I can't do that, I'm a real bank, I got…close to 5 million credit cards. I'm working with nearly every corporate [corporation] in Turkey, somehow, on either a credit or a transaction basis…[R]eputation means a lot to me. I have much more good will in my corporate valuation than [a leading international hedge fund] (Deputy General Manager of a Turkish bank, cited in Hardie, 2007: footnote 23)

Despite the efforts of bank managers to avoid identification with short-term profit seeking financial con men, it is known that the "market generation" (Goz, 2009) of the 1990s, spending day and night in the dealer rooms did not share a similar approach to government bonds. According to memoirs of Yusuf Goz, young banker at the time, insufficient yields and losses in the transactions were compensated with recurring Treasury auctions and it was the gift of young dealers to follow the developments in international markets and hedge the risk accordingly (Goz, 2009). Even if one does not share the harsh criticisms raised with reference to the inexperience of these *yuppie* bankers (see Somçağ, 2007: 53-58), it was for sure that the reputation of a bank did not lie in holding the government bond until maturity.

What is meant with reputation of being a "real bank" by the interviewee, ironically goes hand in hand with the criticism against the practice of banking based on financing public. The entrance of foreign banks into the Turkish banking sector in the aftermath of 2001 crisis has met mixed feelings, since these were considered as doing what financial analysts and popular columnists prefer to call "real banking", i.e. banking based on extending credit to individuals and firms rather than being stuck in the public debt market (see Hardie, 2007). The exposure of commercial banks to GDI has, however, started to change within the same years. As mentioned by Bakır and Öniş (2010) consumer credits provided a much more profitable field for banks in the 2000s.[149]

7. 4. 2. Sustainability of Public Debt

As the discussion in the fifth chapter on "emerging markets" revealed, capital flows into "emerging markets" increased in the first half of the 2000s. After 9/11 events and the decision of US Federal Reserve to decrease interest rates, "emerging markets" provided the profitable outlets for financial investors. Under the surveillance of IMF and the rule of JDP, Turkey benefited from these capital inflows although the outflows and the liquidity crunch through the international financial crisis had significant effects upon the economy that is more and more dependent on the private financial resources.

Turkey as an "emerging market" does not face the problem of unsustainability to the extent it raised concerns in the 1990s. As Figure 7.2. implies the ratio of total domestic debt stock to GDP has declined in the aftermath of 2001 crisis. Unprecedented rise in debt stock in 2001 was the result of GDI injection within the process of banking sector restructuring. Despite the fall in the aftermath of the crisis, total domestic debt stock remains considerable. It has reached from 84,9 billion

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[149] The irony is that, notwithstanding the concerns voiced by Bakır and Öniş (2010) with reference to a partial reading of financialisation debate, monetary policy makers try to monitor the expansion in the consumer credit market by increasing the required reserve ratio. Being unable to avoid capital inflows, the temporary solution to overheating in the economy, brought forward by the CB and government, it seems so, will form an intervention to the sector. This, however, can be grasped as a precaution against credit expansion and does not necessarily bring forward a change in the state-finance nexus of the neoliberal period, contrary to the apparent tensions between the representatives of the banking sector and the JDP government. See "Polisiye tedbir basındaki gibi gelip götürmek mi?", *Milliyet* (internet edition), 30. 3. 2011, http://ekonomi.milliyet.com.tr/polisiye-tedbir-basindaki-gibi-gelip-goturmek-mi-/ekonomi/ekonomidetay/30.03.2011/1370832/default.htm?ver=82

USD in the crisis year 2001 to 219,2 billion USD in 2007 and 228,2 billion USD in 2010.

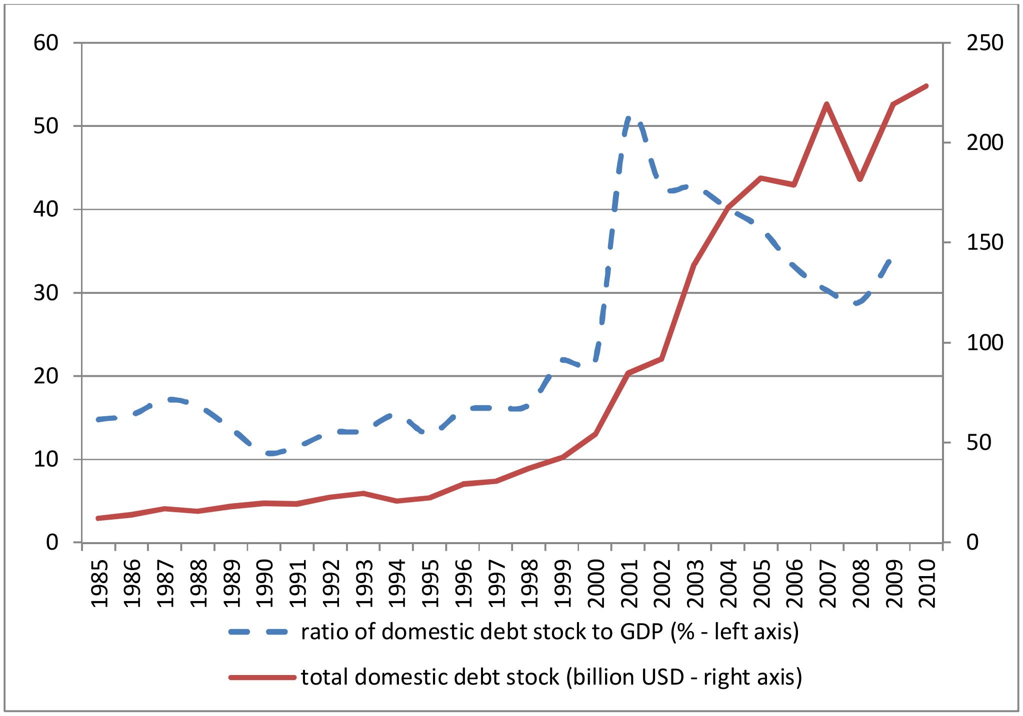

Figure 7.2. Domestic Debt Stock in the post-1980 period

Source: Treasury Statistics
Note: ratios of domestic debt stock have been recalculated according to the 1998 base year GDP series

By looking at the net domestic debt renewal ratio, and the ratio of public sector borrowing requirement to GDP in Figure 7.3, the increase in the debt stock can be observed from another point of view. The magnitude of net domestic debt renewal that is the ratio of total domestic borrowing to domestic debt principal payments indicate that despite the primary surplus in the budget the accumulation of debt persists. Although the principal payments have approached the total borrowing figures in recent years, unless the renewal ratio declines below 100% domestic debt will continue accumulating. The negative figures for PSBR/GDP ratio implies that the public sector produced primary surplus in the aftermath of 2001 crisis, which nevertheless only slowed down the accumulation but not reversed the amount of debt until 2007. As it can be noticed, the pace of the accumulation of the domestic debt increased as the impact of the credit crunch upon the economy was seen starting from 2008 onwards.

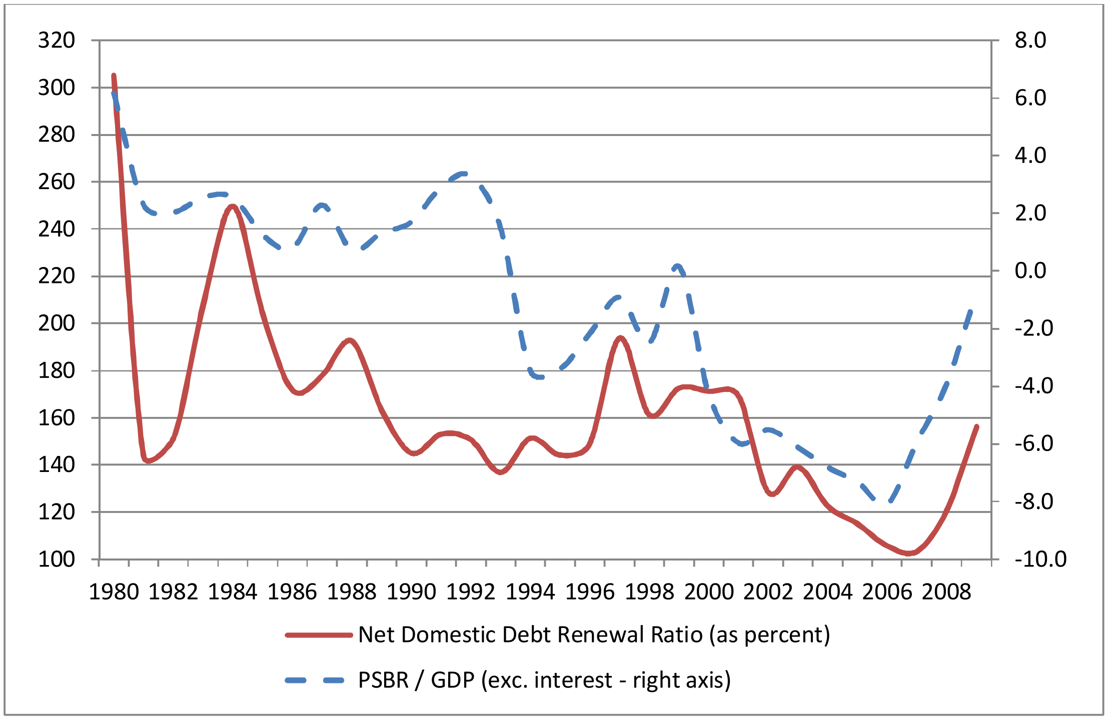

Figure 7.3. Net Domestic Debt Renewal Ratio and the Ratio of PSBR (interests excluded) to GDP

Source: Ministry of Development Economic and Social Indicators 1950 -2010, Hazine İstatistik Yıllığı 2009 (UT, 2010)

Notes: The figure for net domestic debt renewal ratio of 2009 is provisional, There is no explanation on the GDP series on data sheet named public sector balance in Ministry of Development, Economic and Social Indicators (ESI 1950-2010). A comparison with the figures of the previous ESI (1950-2006) implies that the ratios should have been re-calculated according to the new GDP series (1998 base year).

Still, there is an importance change in terms of the picture of public debt and debt service. While Turkey had to allocate most of the tax revenue to interest payments on domestic debt in the late 1990s, the ratio declined significantly in recent years. As a matter of fact, in 2001, 94,4 % of tax revenue was diverted to interest payments on domestic debt. After the socialisation of the losses of the financial sector the ratio declined until 2008. As of 2010, only one fifth of the total tax income is allocated for domestic debt interest payments (see ESI, 1950 – 2010).

Accumulation of foreign debt supplements the picture provided. Despite significant fall in the ratio of public debt stock to total foreign debt stock, it can be noticed in Table 7.1 that the debt service increased in nominal terms. Despite the tendency of debt service ratio to decrease in the aftermath of 2001 crisis, this came to an end in 2009. The rise in the total foreign debt stock implies that the private sector is heavily indebted to the international financial markets.[150]

Table 7.1. Foreign Debt Indicators (Selected Years)

	1989	1994	1999	2001	2007	2008	2009
Gross External Debt Stock*	43.911	68.705	103.123	113.592	249.553	277.005	268.194
Public Debt Stock**	67,1	60,8	42,8	41,5	29,5	28,3	31,1
External Debt Service*	7.182	9.993	18.316	24.623	48.680	53.379	57.829
Debt Service/ GDP***	5,0	5,6	7,4	12,5	7,5	7,2	9,4

* million USD, ** As % of gross external debt, *** As % of GDP (1998 base year)

Source: Hazine İstatistik Yıllığı, 2009; www.treasury.gov.tr

According to the Treasury statistics, most of the domestic debt auctioned had its maturity date in less than a year in 1994-1996. The reliance on short-term debt had drastic impact upon the average maturity of debt stock. Despite a positive change in the maturity composition of borrowing in the late 1990s, average maturity of the debt stock was 13,4 months in 1998. The restructuring of debt after 2001 crisis raised the average maturity of the debt stock considerably. After a decline in the following three years, the average maturity started to increase again and with the ratio of bonds with maturities to 3-5 years reaching a considerable amount, the average maturity rose to 24 months in 2006 and 31 months in 2010.[151]

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[150] NFCs in Turkey have not resorted to the private bond market for financing investments and expenditures in the aftermath of financial liberalisation. Despite this feature, outstanding private sector securities increased significantly in recent years and there are signs of an emergent private bond market. See monthly statistical bulletins of CMB, http://www.spk.gov.tr

[151] See Yearly Statistics of UT at www.treasury.gov.tr. In their proposal for a rule-based fiscal policy, Republican People's Party (2011), the main opposition party in the last decade, point out that the average maturity of Turkey's public debt is considerably less than the average in major "emerging market" economies. The party criticises the growing indeterminacy in macroeconomic policy

Despite the fact that the lengthened maturity in domestic borrowing is accompanied with declining real interest rates in GDI, the spread on Turkish sovereign bonds which are traded in the market for "emerging market" bonds kept its volatility. Longstaff et al. (2007), provide a summary of the sovereign CDS spreads and show that the spreads for 5 year CDS contracts, measured in basis points between October 2000 to May 2007, ranged from the lowest 122,94 points to highest 1281,25 points, with a mean of 527,64 points. An analysis based on a shorter time period in the aftermath of 2001 crisis will reveal different results, nevertheless Turkey follows Brazil and Venezuela in standard deviation of CDS spreads, proving that premiums received in order to meet the losses of financial investors in case of default on Turkish sovereign bonds remained high and CDS spreads remained volatile. Although Longstaff et al. (2007) underline the impact of global economic downturns on CDS spreads, concerns on the sustainability of debt can skyrocket the spreads within a few months as seen in the 2010-2011 sovereign debt crisis in the Eurozone.

To conclude the discussion on sustainability of public debt, it should be re-emphasized that despite the declining real interest rate on GDI, the imposition of targets for primary budget surplus, and the apparent decrease in the ratio of total domestic debt stock to GDP in the 2000s, the accumulation of debt proves, Turkey is far from overcoming the problem of public debt.[152] Ponzi scheme of the 1990s has been left behind; however, the sustainability of public debt remains a concern. The aim of the JDP governments and the Treasury has been, to overcome the problems that allegedly stand in front of rolling over debt. Rather than minimizing the domestic debt stock, the deepening of the market is thought to contribute to the effective management of public debt.

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management but to what extent their policy proposals on public debt is different than those of JDP's seems questionable.

[152] Interview with the Former Undersecretary of the Treasury (2001-2003), interviewed on 28.12.2011

7. 4. 3. Strategy and Orientation of the Treasury

It is mentioned in legal texts that the task of the Treasury as an institution is to provide the financial means that the budget needs by the help of an active policy of debt management. As mentioned in the law no 4059, the Treasury contributes to the formulation of economic policies, performs operations regarding public finance and cash flows related to public debt, supervises the financial management of SEEs and administers the relations with the IFIs, regulates the capital flows, regulates the insurance sector and performs operations related to currency exchange regime (UT, 2008a). These tasks of regulation and supervision imply that the management of the financial assets and liabilities of public in a way that will support the expanded reproduction of capital in general is the basic pillar of the Treasury's orientation. The form and mechanisms of this support given by the Treasury, however changes over time.

The Treasury determined strategic criteria in terms of debt management and declared numerical targets for debt ratios from 2003 onwards. These criteria were determined for triennial periods and revised every year. It is presented as a transition to long-term thinking and effective management, which the Treasury lacked in the 1990s.[153]

In its strategic plan for 2009-2013,[154] alongside the repetition of the tasks assigned by laws, it is particularly emphasised that the Treasury aims to help private sector use its investment potential to the highest degree possible and the expansion of insurance (in both life and other branches) and private pension systems are the major goals (UT, 2008b; for distinction and evaluation see UT Insurance Supervision Board, 2010). According to the strategic plan, the Treasury determines performance criteria in order to realize the major goals by 2013. Among these major goals, increasing the share of GDI sold to households and further increases in the trading

[153] Interview with General Director, Undersecretariat of Treasury, interviewed on 2.12.2011

[154] The treasury was one of the first institutions producing a strategic plan after the promulgation of the Law no 5018 in 2003. It took several years to draft a strategic plan, which was thought to provide a model for other state institutions. Interview with the Department Head, Undersecretariat of Treasury, interviewed on 28.11.2011

volume of the secondary market for GDI are mentioned. As it is shown in this chapter and the previous one, the secondary market is already a significant investment sphere. This, however, is not enough for the policy makers. It is particularly important to underline that the orientation of the Treasury for financial deepening continues and the transfer of part of household income, it is expected, will boost the market.

Another issue of strategic importance to the Treasury was mentioned as the investment climate. Updating the agreements concerning promotion of investment, following the advises of Investment Advisory Council[155] and realisation of the action plans put forward by the Coordination Council for Improvement of the Investment Environment for enhancing the competitiveness of the private sector were mentioned as targets by the Treasury (UT, 2008b). In these policy documents, the Treasury also underlined the need for "modernization of the public administration" and "citizen oriented service provision" and declared the willingness of the institution to participate in the processes of further restructuring of the state in line with the needs and demands of market actors. By the recent decree with the power of law no 637, the Coordination Council has been transferred to the Ministry of Economics.

Since the issuance of bonds which will be used for borrowing from money and capital markets came to be more prominent in public finance, the fulfilment of the tasks of the Treasury has intertwined with the stability and deepening of the financial markets. In the aftermath of the 2001 crisis and during the third one of the periods that we are dealing with, another element added to the permanent restructuring is that the Treasury formulates strategic goals and declares the orientation of institution in order to shape the economic developments with the

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[155] Undersecretariat of Treasury determined the realization of the proposals of the council as a performance criterion in its strategic plan. This council is an elite organization of big business and international investors. Representatives of IMF, WB, European Investment Bank and representatives from 17 international corporations in the fields of information, automobile, finance and logistics participated in the 2010 June meeting alongside the spokespeople of Turkish Industry and Business Association, Turkish Exporters Assembly, The Union of Chambers and Commodity Exchanges of Turkey and Association for International Investors. It can be expected, after the legal change in 2011, that the Ministry of Economics, in its own strategic plan, will declare the proposals of the council as a performance criterion.

demands of the IFIs and market actors. To put in more cynical terms, the absence of a fiscal rule[156] that would limit borrowing would not harm the financial investors as long as the institution determines the strategic goals in line with their demands. The Treasury is now (decree with the power of law no 637), as a member of the Financial Stability Committee, responsible for improvement of the financial sector and creating an environment more conducive for financial innovations. A top level bureaucrat in the Treasury explains the recent change as follows:

> Our institution is the one which internalized the systematics of risk management and its philosophy. There is also the Financial Stability Committee. It has been established within the recent wave of decrees with the power of law. The UT will perform the secretarial duties of this committee. It is charged with doing every study necessary for financial stability, security and defense. It was General Directorate of Banking and Foreign Exchange, now it turned into Relations with Financial Sector and Foreign Exchange. This unit will perform the secretarial duties of the Financial Stability Committee. It will monitor every development regarding financial sector, take the big picture and help develop policies.[157]

7. 5. State-Finance Nexus: On Relations between the Treasury and Banking Sector

Policy decisions impact upon the redistribution of public resources and, indirectly, the use of private resources. The restructuring of the state in the post-1980 period and the change in the policy of debt management had drastic consequences in the use and distribution of public revenues. For example, the contradictions brought forward by the new method of financing public expenditure and the liberal economic orientation condemned the state to allocate most of the tax revenue for interest payments on domestic debt in the 1990s. To give another example, the restructuring of the banking sector, which came to the brink of complete collapse in 2001 crisis necessitated the use of public revenues for that aim and increased the debt burden of the Treasury.

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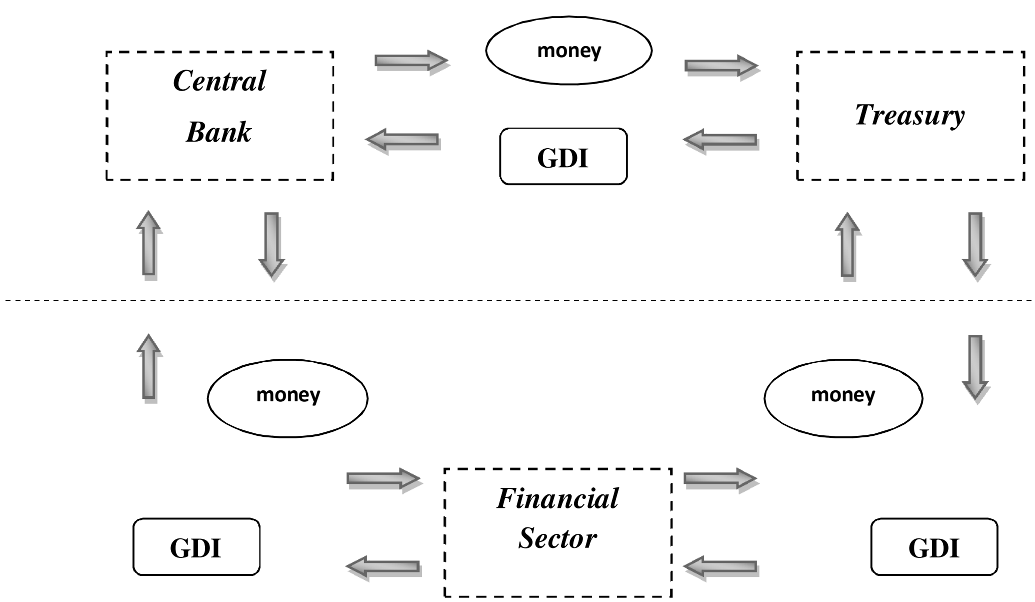
[156] The debate in Turkey on fiscal rule that took place as a target in the Medium-Term Program of 2010-2012 reveals that the government did not want to impose specified constraints on public deficit. See Eğilmez, M. (2010, July 20) "Mali Kural Zora Girdi", *Radikal* and Eğilmez, M. (2010, September 14) "IMF ve Mali Kural", *Radikal*.

[157] Interview with the Department Head, Undersecretariat of Treasury, interviewed on November 28, 2011

Debt management however, should be taken into consideration with an emphasis on the methods and contradictions as much as the underlined costs and the results of policy implementation. The change in the policy of debt management in Turkey in the post-1980 period can be characterised first and foremost by the shift to borrowing from financial market. Although the use of CB resources by the Treasury continued until 1997 and legally sanctioned in 2002, the 1980s and the 1990s can be taken as the decades in which this gradual shift was experienced. The predominant mode of financing public expenditure in contemporary world is that the Treasury borrows from money and capital markets and the yield of the debt instruments is determined within the market. The shift in Turkish context started in the mid-1980s with the regular auctions of the Treasury, the foundation of interbank money market and OMO conducted by the CB.

Table 7. 2. Methods of Financing Public Debt



Adapted from: Makinen cited in Eğilmez, 2007: 123, see also Akçay, 2009: 211

The upper part of Table 7.2 schematises the financing of public debt through the use of the CB resources. As it can be seen, in the lower part, the latter method is based on borrowing funds from the financial sector, while the CB conducts OMO to control and support liquidity of GDI. In Turkey, banks occupied the role of financial intermediaries due to their domination of the financial sector. It took, however, several years to complete the shift to the new mode. During the 1990s, state had to resort to high-cost borrowing. Ever-increasing costs of debt rollover have pushed policy makers to look for solutions, such as development of formulas for the flow of household savings to the financial markets, or procrastination of the need to deal with high-cost borrowing by improvisations, which inevitably aggravated the situation, such as the cancellation of the public debt auctions by authorities with a false belief that this would decline the premium to be paid by the Treasury.

According to the experts, the obstacles against the process of financial deepening could be summed up with reference to the two features of the 1990s Turkish economy: High inflation and crowding out of private sector (Eğilmez, 2007: 129). To overcome these obstacles and pave the ground for financial deepening, which would enable the efficient allocation of funds, a rational policy of debt management is deemed as necessary. In the words of former Undersecretary of the Treasury, Eğilmez (2007: 128-129):

> Another obstacle against the development of the financial sector is the Treasury itself, the importance of which we emphasized in terms of the development of this market. This contradictory situation emanates from the Treasury's reliance on this market for financing public deficit and crowding out private sector. Taking place in the market with a high borrowing requirement, the Treasury impacts upon the banking sector and banks prefer to transfer funds into the Treasury, which they see as less risky, instead of transforming these into private credits… More development of the financial sector in Turkey depends on avoiding two phenomenon created by high public deficits; high inflation and the Treasury's crowding private sector out of the market for loanable funds. Avoiding these is related to the success of the implementation of stabilisation programmes targeting internal economic imbalances, first and foremost high and persistent public finance deficits.

This perspective is based on the calls for further "depoliticisation" of debt management and conceptualisation of the debt rollover as mainly a technical issue.[158] It is for sure, that the rise in the ratio of debt to GDP has increased the risk

[158] Eğilmez took a similar stance in his journalistic writings on Greek debt crisis and referred to economic management as a technical issue, the success of which is related to stubborn implementation of structural reforms. See Eğilmez, M. (2010, December 17) "Krizdeki başarının sırrı", *Radikal* and Eğilmez, M. (2011, June 30) "Mario ve Euro", *Radikal*.

premium of GDI and exacerbated the debt problem in the 1990s. It would, however be misleading to stick to an explanation which underlines the debt ratio as an obstacle against financial deepening and development of financial sector. Trying to conceive financial deepening as such would give way to more problems than it would attempt to solve, since the way financial markets function would reveal significant differences according to the organization of the financial system and the preferences of business groups. As shown in the sixth chapter, the ratio of financial assets (deposits and securities) to GDP has moved upward significantly in the aftermath of financial liberalization. This could be interpreted as the absence of financial deepening in Turkey, if and only if one is obsessed with identifying financial deepening with the amount of private securities and the trading volume of stock shares, which in the context of Turkey increased in the 2000s, as also the ratio of bank credits to GDP.

It would not be meaningful to claim that financial deepening did not take place in Turkey because of the public debt problem. Those who attempt to pose the problem of public debt management as a contributor to the financial instability in Turkey emphasize the intervention of the government authorities and policy makers into the public debt market (see Özatay, 2000, 2011). Again, it is crystal clear that a policy implementation process which contributed more to the use of funds in the hands of private sector for rather productive purposes could have taken place, if the short-term outlook of government members and palliatives of the Treasury were not so predominant in the 1990s. Nevertheless, it would not be meaningful to suggest that the inability of the Treasury in terms of effective debt management amounted to a policy shift in the management of debt. For the change in the policy of debt management should be characterised by borrowing from money and capital markets and particular and short-term changes (as reflections of desperate search for more and more funds) did not lead to long-term policy changes within the post-1980 period.

Having said this, the risks and contradictions in Turkish context, brought forward by the persistence of the policy of borrowing from financial markets should be re-emphasised before a portrayal of the reorganization of the state-finance nexus through financialisation, or in other words, the *financialisation of the state*, i. e. the restructuring of the state in line with the dynamics and contradictions introduced by the multi-dimensional process of financialisation.

7. 5. 1. Contradictions and Systemic Threats

Turkish banking sector had severe problems which were aggravated in the aftermath of financial liberalization. The regulatory structure and the asset-holding preferences of the banking sector gave way to further contradictions. The financial system in Turkey that is dominated by banks had formed, to put in more informal terms, a threat to the extent that the system instigated further financial instability. Three major fields which are themselves related to the macro level developments in Turkish political economy and the organization of big business groups, but reinforced under the constraints of public debt trap of the 1990s and financial liberalization should be underlined: connected lending in particular and unlawful banking practices in general, duty losses of the state banks and finally the risky balance sheets in Turkish banking sector.

As observers of the banking sector and its crisis mention:

> The TBS [Turkish banking sector] had been unprofitable for many years, chiefly on account of connected lending to unprofitable projects (including pure embezzlement) and fraud in a number of banks, reflecting a lax and politicised supervision process, but also because of high taxation of domestic deposits. Troubled banks could continue to attract depositors, because of deposit insurance, imposing unfair competition on healthier banks. Banking licenses were given very easily and decision-making was politicised (Tükel et al., 2006: 277).

The critique of regulatory structure by Tükel et al. (2006) ignores the other side of the coin: the strategy of business groups in the post-1980 period, which can be summarised as owning a bank, and the ensuing intense competition in the banking sector as a result (see Ergüneş, 2008; Gültekin-Karakaş, 2009). The alleged unprofitability in the banking sector was compensated by the functionality of having a bank which could be used as leverage in the competition between business groups. The rush for banks on the side of capital groups cannot be explained otherwise.

Ergüneş (2008) documents several ways for the transfer of resources from banks to the capital groups.[159] As mentioned, it is not possible to document the amount of the transfer through an analysis of the balance sheets, though this might be useful for an analysis at another level. There were several rumours that capital groups used banks for operations related to "dirty" money (see Sönmez cited in Ergüneş, 2008). Off-shore banking became a way to overcome the legal constraints upon banks. Some of the off-shore banks in Northern Cyprus were owned by Turkish banks. Ergüneş (2008: 316) counts as much as 14 banks that had organic relations with Cypriot off-shore banks in the 1990s. These banks did not have to comply with reserve requirements and did not have to pay withholding tax on deposits. It was possible to transfer losses within the Turkish bank to the off-shore bank as well as using the latter for capital increase via taking back the deposits in the off-shore banks as if the funds belonged to shareholders.

More importantly banks were being used for giving back-to-back credits. As Ergüneş (2008: 318) summarizes, the bank owned by the business group, for example, opened credit lines to a firm within another group, in return for reception of exactly the same amount of credit under the same conditions by the first group's firm. By way of doing so, the legal limit on credits that could be given to the firm which takes place within the same business group is overcome. Moreover, there are some cases (e.g. Istanbul Bank, Egebank) in which huge amounts were transferred to corporations without any collateral, or firms on paper were used for transferring the resources to the firm which already exceeded the limit it can use from the same bank. These were basic unlawful practices, which injected further instability into the financial system and were used for transferring resources from banks to the business groups to which the former belonged.

The second point is known colloquially as the "duty losses". Banks owned by the state were used for supporting particular sectors and providing cheap credits. In the post-1980 period, credits given to particular economic sectors such as agriculture, housing and small enterprises by these banks dropped significantly (Ergüneş, 2008:

[159] Gültekin-Karakaş (2009) discusses in detail, by using a fractional approach, the re-regulation of banking sector and the exit of some business groups from the sector in the aftermath of the 2001 crisis.

326). In many cases, credits given by these banks to capital groups and corporations incurred losses and these banks had to carry these on their balance sheet. State owned banks were also used for providing not only cheap but sometimes also unlawful credits to the private sector (Ergüneş, 2008).

Another reason for the “duty losses” can be stated as the use of the resources in the hands of state banks by state institutions with no payments at the time of maturity. State banks were used to finance government expenditure “by extending loans to state institutions which ultimately became non-performing but were treated as receivables from the government in the books” as noted by Akçay (2003: 178). Moreover, the limitation to the advances used by the Treasury from the CB in 1997 put more pressure on state banks as it led to severe accumulation of duty losses given the debt trap of the state (Akçay, 2003). The contradiction was that the Treasury, in charge of supervision of banks, could not start to liquidate these losses and abandon the use of state banks for public finance because of the debt trap. The accumulation of these losses in the books of the state banks was starting to become more and more difficult to sustain.[160] On the other hand, to let the accumulation of these losses would create huge imbalances within the sector and these would undermine the operations of state banks in particular and the banking sector in general. The Treasury and monetary authorities preferred the second way until the 2001 crisis.

The last point is short FX positions, or open positions. The lucrative business of financing public debt by borrowing in foreign currency and investing in domestic currency had made banks susceptible to currency fluctuations.

> Balance sheets were…very risky because of maturity mismatches, the very short-term nature of borrowing (notably through the so-called “repos” (repurchase operations) with customers and banks) and large open foreign exchange positions. The latter were the result of the lucrative carry trade, whereby banks funded government debt by borrowing and taking deposits denominated in foreign exchange. In the process, banks circumvented foreign exchange regulations, which postulated a limit for open positions of 20 per cent of equity. Supervisors closed their eyes to such transgressions in

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[160] See “Ziraat Bankası her gece 1 katrilyon arıyor” (1998, February 14), *Milliyet*; “Görev zararları baş döndürüyor” (1999, January 18), *Milliyet*.

> a live-and-let live game intended to lower interest rates on government debt, since borrowing from abroad or in a foreign-exchange [FX terms] was available at relatively low interest rates (Tükel et al., 2006: 277-279).

Again, the critique of the regulatory framework by Tükel et al. (2006) remains one-sided. To put in proper terms, the corrosion of the regulatory structure had as its reason the need to borrow on relatively low interest rates, nevertheless the problem of open positions, a phenomenon aged almost a decade at that time, became more drastic in the aftermath of the launch of IMF disinflation program, which was tied to strictly controlled exchange rate regime and pre-announced exit strategy. The significant rise in open positions of banks in 2000 had to do with the windows of opportunity provided by the IMF program within an unstable and highly-indebted economy. The ratio of FX assets to FX liabilities in commercial banking sector dropped from 93.6 % in 1996 to 71,6 % in the ninth month of 2000, i.e. just before the November crisis (Akçay, 2003: 177). Almost half of the drop was in the first nine months of 2000 that is during the IMF monitored disinflation program. Hence the structural problem for banks of the unwillingness of account holders to invest long-term was accompanied by the risk appetite of commercial banks and led to an increase of the open FX positions dramatically. On the way up to the crisis, the operations of banks paved the ground for the liquidity problem and further financial volatility:

> In the initial phases of the program some banks resorted to heavy commercial lending activity as the reduction in T-bill rates reduced the attractiveness of short-term (repo) funding and made a potential jump in short-term repo rates a much scarier scenario. On the other hand, other banks bet on a steady decline in funding costs and chose to invest in long-term government securities in an even more aggressive manner. The former group of banks had a reduction in their maturity mismatch, while the latter further extended it – making them even more vulnerable to sudden interest hikes. As the rising interest rates and the deteriorating sentiment led to shrinking interest margins and lower profitability for the banking sector, some banks resorted to lending that had to be riskier by definition, while others further extended their maturity mismatch; both responses… were efforts to make up for falling profit margins. Maturity mismatch thus served as a time bomb waiting to explode when untoward developments on macroeconomic front provided the opportunity (Akçay, 2003: 176).

As it is well known today, the problems of maturity and currency mismatch and the risky operations performed by banks paved the ground for the huge banking crisis of 2000-2001 (see Türel, 2010). The losses of financial sector, luckily for banks and unfortunately for wage earners, were socialised by the state in due course, with the Treasury playing a crucial role in the process. The major problem in the banking sector turned out to be the consumer credit boom and impacts of international financial volatility in the last decade. The banking sector has a high capital adequacy ratio and non-performing loans remain low relative to EU countries (CBRT, 2011). Given the unprecedented increase in the current account deficits, the indebtedness of NFCs and households up until the international financial crisis, the currency risk became the major problem for the economy as a whole.

7. 5. 2. On Financialisation of the State in Turkey

The *financialisation of the state* or the reconstruction of the state-finance nexus in Turkey in the post-1980 period can be analysed with reference to three inter-dependent aspects, which were also discussed in the fourth chapter: construction and deepening of financial market, imposition of monetary discipline upon state together with the depoliticisation of economic management and finally the socialisation of the losses of financial sector.

The first one is the establishment and deepening of the financial markets. The state, with legal regulations and the policy makers with their explicit commitment to the Washington Consensus and the ensuing second generation reforms due to the limits of the initial structural adjustment schemes, aimed the formation of an atmosphere conducive to productive investment. As much important and grasped almost as a precondition for the achievement of higher rates of growth was the deepening of the financial market. As noted in this study in previous sections and the previous chapter, the deepening of the financial market went hand in hand with the persistence of domination of banks in the financial field.

The securities market which was dominated by GDI due to the high indebtedness of the state and the policy shift in debt management (characterised by relying more on money and capital markets for financing public debt) led many to underline the specificities of Turkey when compared with the “advanced” capitalist countries. This comparison was supported by references to the short-term fluctuations in policy orientation and the “politicised” environment in the banking sector and lax regulatory framework (see for example, Özatay, 2000, 2011; Akçay, 2003; Eğilmez and Kumcu, 2007; Bakır and Öniş, 2010). The studies pointing out the macroeconomic problems in Turkey in conjunction with the policy-making process implicitly suggest that the inability of the state to construct a proper regulatory framework and the incapacity to minimize public expenditure were the major reasons of financial instability and volatility of the rates of growth in Turkey in the aftermath of financial liberalization. Accordingly, it was only after the 2001 crisis that Turkey could take steps in the right path and establish regulatory framework and financial system resilient to shocks. Our survey, however has shown that the alleged failure of the state is not contradictory with the Treasury's persistent aim of financial deepening.

The threats within the financial system was coloured by the public debt trap and the risky balance sheets in banking sector as an adjunct of state's effort to continue Ponzi finance in the 1990s. Nevertheless, the relation between the financial sector and the state was re-established on such grounds that the state can be considered as the "pioneer of financial deepening" (Yeldan, 1995) in Turkey. In the last decade this aim of financial deepening could be carried out in a more effective manner thanks to the declining ratio of public debt. It is defined as one of the major functions of the Treasury:

> As long as we decrease the rollover ratio, we decrease our share in the market and leave more funds to the banking sector… We contribute to the secondary market for the securities with systems like primary dealership… Declining ratio of public debt, declining budget deficit and declining rollover ratio; these transmit the message to the market that public intends to borrow less and leave more funds to the sector. We have now prepared a yield curve with different maturities, from short-term to 10 year maturity. If a bank gives housing credit to its customer, it will look at the curve and perceive this as risk-free yield. Then calculate the risk, add a margin and give the credit. These are really important in terms of economic and financial predictability. Treasury assumes this function. It provides information that would serve as the basis for credit extension. Whole financial market functions on this basis. Take it as a lighthouse or an anchor, around which the whole system revolves.[161]

[161] Interview with General Director, Undersecretariat of Treasury, interviewed on 2.12.2011

The second aspect is the internalisation of monetary discipline by state institutions and the reorganisation of state apparatus through financialisation and recurring financial instability. Strategies of "depoliticisation" and the process of "internationalisation of the state" were seen at one and the same time in the late 1990s and the 2000s. One of the dimensions for depoliticisation was first the limitation in 1997 and then the abolishment in 2002 of the use of the CB resources to finance public expenditure. By these changes, the long shift which started with regular debt auctions in 1985 has been completed. The duties of today's Treasury and limits for borrowing have been set up to a great extent with the Law no 4749 in 2002. According to a General Director from the Treasury, Law no 4749 was different from the previous regulations in its scope and contribution to fiscal discipline:

> 4749 was different… UT worked on that… Every year you want the assembly to authorize. It is for one year. Every year it is a matter of debate. If we are not authorized, the system stops. The politicians know that the authority for borrowing and cash management should be given. But it is like Sisyphus, rolling up the hill… then roll down… We gave our draft. The wind was on our side. It is an important law and it is fortunate that nobody paid attention. If someone paid attention, it would be changed. It is a cornerstone in providing fiscal discipline.[162]

Given the conditions of "implicit inflation targeting" under the first JDP rule (2002-2007), monetisation of public debt was no longer an option for monetary authorities. The second set of changes was related to the regulation of banking sector. BRSA as a supervisory body, founded in 1999 and rendered fully operational in August 2000, proved functional in presenting regulatory efforts and decision making with regards to the banking sector as non-political and compulsory reforms pursued by technical experts. The foundation of BRSA, can be seen, in that context, as the "process of placing at one remove the political character of decision making" (Burnham 1999: 47).[163] This has been put into question by recent legal changes making BRSA give account to the minister of economics.

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[162] Interview with General Director, Undersecretariat of Treasury, interviewed on 2.12.2011

[163] It is a common notion in the Treasury that the regulatory agencies contributed to the economic discipline in general and efficient debt management in particular. Interview with the General Director, Undersecretariat of Treasury, interviewed on 30.12.2011. In the words of the former

Nevertheless post-crisis reform explicitly aimed the depoliticisation of economic management. As it was mentioned by the former undersecretary who took part in the post-crisis restructuring of the Treasury, the idea was to separate objectives provided as outputs of political struggle and the daily routine of economic management:

> We have terminated the intervention of the politician into the daily routine of the economy and the functioning of the economic bureaucracy, while pursued the long-term objectives provided by the politics.[164]

The debt management in that sense is portrayed as a technical field in which the political will should not interfere with. As an indicator of continuous restructuring in the state, a top level bureaucrat questions the role of the minister in charge within the final decision making on debt auctions:

> There is an order in which the ultimate decision is given by the undersecretary. For example, where should the line be put? You organize an auction; declare the amount you will borrow and the instrument you will use. Primary dealers and others make their offers; these are gathered in the Central Bank, then listed by the bank and sent to the Treasury. A line is decided and it determines the interest rate. Where to put the line is something decided at the top by the undersecretary or the minister. General Directorate of Public Finance proposes something, the studies conducted for risk management support the proposal, but it would be more reasonable to produce the ultimate decision with a collective mind. It would be reasonable, I think, to have a board at the top, composed of finance professors, who have nothing to do with operational, daily tasks and who have nothing to think of except focusing on macro level work. It should be also questioned that whether the Undersecretariat of Treasury should be ruled under general budget or transformed into a more dynamic and more independent body.[165]

Undersecretary "…as the final decision was made by the government, the bureaucrat thought that he was not responsible. I think, with the regulatory agency [BRSA], the system is more disciplined". Interview with the Former Undersecretary (2001-2003), interviewed on 28.12.2011

[164] Interview with the Former Undersecretary (2001-2003), interviewed on 28.12.2011

[165] Interview with the Department Head, Undersecretariat of Treasury, interviewed on November 28, 2011.

"Depoliticisation" was necessary but not sufficient for the restructuring of the relations between state and financial sector.[166] It was of utmost importance to impose a policy of primary budget surplus, among other measures of reform associated with post-Washington consensus. The internalisation of fiscal discipline, in that sense, brought about an austerity state, parsimonious in terms of public expenditure.[167] Internalisation of discipline is accompanied by "internationalisation of the state", in the sense of the search and implementation of international rules and regulations in banking sector and the field of debt management. Although a consensus by international financial circles on strict regulation of international financial markets is conspicuous by its absence, international standards of banking and debt management became reference points for the Treasury, the CB and BRSA in the aftermath of financial liberalisation. While the Treasury searched for diversifying debt instruments (see Gürün et al, 2009) and taking into account the demands of the financial sector for an organized and deepened public debt market (see UT, 2008b), the independence of the CB and definition of its duty as providing price stability were presented as the requirements of modern day central banking. BRSA, on the other hand, analysed the sector and searched for implementation of Basel II principles. From the auditing of offshore banking (international subsidiaries and branches of Turkish banking sector) by BRSA (see Tükel et al., 2006: 289) to the takeover of 20 banks that do not comply with the regulatory framework by SDIF between 1997 and 2003, the reforms can be seen as the ramifications of "internationalisation", not in the sense of direct transmission of the international regulations to Turkish context, but organizing the sector in line with the international standards and practices to a great extent. Directives and communiqués prepared by BRSA in cooperation with the representatives of the banking sector for the implementation of Basel II principles can also be seen as facets of internationalisation (see Türel, 2009). Internationalisation in this respect does not mean an abrupt adaptation of the international banking practices and audit

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[166] The emphasis on depoliticisation can best be seen in M. Eğilmez's speeches while he was the head of the Treasury . See "Eğilmez: Baskı olursa giderim", (1997, July 17), *Hürriyet*, "Eğilmez: Hazine yetkilerini kısıtladı, sıra siyasilerde", (1997, August 4), *Hürriyet*.

[167] Özatay's (2011: 178-182) mild criticism reflects that even though many "emerging markets" implemented expansionary fiscal policies as a response to 2007-2009 international financial crisis, Turkey took shy steps and refrained from expansionary measures.

mechanisms. It is rather an intermittent process in which the international practices are interpreted according to the demands and projections of the banking sector.[168]

The legal changes in the aftermath of the 2001 crisis provided the ground for presenting debt management in technical terms. Although, this may be re-framed in the aftermath of the foundation of Financial Stability Committee, the policy-making procedure is narrated as the one in which only the final decision is taken and macroeconomic target is determined by the government, while all the possibilities are analysed by the Treasury using hypothetical scenarios:

> We keep advancing the models. We try to improve the quality of data. We reflect these on the policy documents and give it to the minister. We explain our justification. There can be differences, but these won't matter. You assume an inflation level, but the politician thinks different… You've got to take it. You cannot put a number other than the assumed. You've got to be at the same point in the base scenario. Then you calculate the risk and put the alternatives. Among thousands of scenario, we chose those with high probability. Then present these. If you prefer this way, we'll end up here, we say. The minister lets us know his preference. Then it becomes a political decision. It is turned into a mandate and a written instruction. Then it is sent from the ministry to us as the government's preference.[169]

Last but not least, it is necessary to point out the socialisation of the losses of the financial sector by the state. As it is well known the state assumed the losses of financial sector and intervened for revitalisation of the credit markets during the 2007-2009 international financial crisis (see Visser and Kalb, 2010). In the Turkish context, bailing out banks, injection of funds for rescue and providing stimulus through various means had a history for more than a decade. Moreover, the taxation policy of the state, i.e. resorting to indirect taxes rather than income tax and minimizing or not levying tax on financial operations, functioned as an additional aspect of supporting money holders and financial investors in the post-1980 period.

A drastic example can be given regarding the orientation of the policy makers in the 1990s. Government launched a campaign for tax reform in autumn 1993. During the

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[168] The interviewees agreed on characterizing the Treasury as a modern institution which adopted the most efficient methods by observing "what is out there" and the international practices.

[169] Interview with General Director, Undersecretariat of Treasury, interviewed on 2.12.2011

coalition government formed by True Path Party and Social Democrat People's Party, the prime minister was insisting on the preservation of value added tax but also introducing tax reform so as to increase the state revenues and render the system of taxation more just. The so-called reform was presented as an endeavour to decrease the tax burden on fixed income strata of society, while, at the same time, the prime minister promised not to change tax code in a way to prevent financial deepening, i.e. taxing capital market operations. The discussion on increased taxation of income from government bonds, it was claimed, led further volatility in the bond market. The irony is that, despite the rumours for an increase up to 35 %, in the end, 10 % tax withheld was halved under the banner of tax reform.[170] From a more general point of view the taxation policy of the state in the post-1980 period should be seen as a contributor to the soaring PSBR. The radical increase in the ratio of securitised public debt in the 1990s can be interpreted, among other things as the acceptance of and submission to a scheme through which resources are transferred from the public to the business groups and banks *via* public securities offering high premiums (see Ergüneş, 2008).

Rescue operations can provide a better example than taxation and budget priorities. The cost of the restructuring of the banking sector reached to 47 billion USD. The funds injected to banks taken over by SDIF reached to 27.8 billion USD in 2004 (SPO cited in Bakır and Öniş, 2010). Ali Babacan, the minister in charge of economics since May 2009, claimed in a recent critique of then general director of İş Bank, that the cost to the Treasury of restructuring banking sector is estimated to be around 380 billion TL (240 billion USD) if the interest payment of debt is added.[171]

As it is mentioned, bailing-out banks and socialisation of the losses of the banking sector in Turkey provides a model case of bank rescues in "emerging markets" (Marois, 2009). Socialisation of debt and risk is based on the firm commitment of

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[170] See the following columns and newspaper pieces: "Çiller: KDV'yi Düşürmem" (1993, November 5), *Hürriyet*, Sağlam, E. (1993, November 23), "Hazine Bonolarına % 35 Vergi", *Hürriyet*; "Vergi Devrimi" (1993, November 30), *Hürriyet*; "Vergi tasarısı deliniyor" (1993, December 12), *Hürriyet*; "Faiz vergisi yumuşuyor" (1993, December, 21), *Hürriyet*; Kutlay, M. (1993, December 24), "Bono Paniği", *Hürriyet*; Doğan, Z. (1993, December 26) "Faiz vergisinde geri adım", *Milliyet*; "Vergi zenginin dediği gibi oldu" (1993, December 28), *Hürriyet.*

[171] See, "Babacan: Her bankanın genel müdürüne laf yetiştiremeyiz" (2011, April 1), *Radikal*

the Treasury to the well-being of financial sector.[172] *Financialisation of the state* presents itself most explicitly in the identification of public interest with the interest of the financial sector. To give another example, the debt swap in 2001, first and gargantuan in its size and operational cost in Turkish history, can be noted. The Treasury organized the debt swap in order to help banks balance their FX assets-liabilities ratio. "June 15 swap" was presented as a win-win situation and it was emphasized that the voluntary nature of the swap revealed its market flavour. It is known, however, that the Treasury and representatives of the banking sector met frequently before the swap for designing the quality of debt papers to be exchanged. To help banks close their short positions, The Treasury offered FX-denominated bonds in exchange of TL-denominated bills. The Treasury also put TL-denominated bonds in her bond-basket and the attempt to minimise the exchange rate risk taken by the Treasury faced with a disdain from the banking sector. Two significant forms of intervention during the organization of swap can be stated as follows: First one is that the Treasury determined prices of the bills and bonds that will be bought, rather than using their secondary market price and guaranteed a minimum income to the participators by declaring a maximum price for non-competitive bids for 3 year maturity bonds. Secondly, the Treasury determined an exchange rate that will be implemented for the newly issued instruments, which was below the market price and the CB did nothing for rapid depreciation (more than 6 percent) of Turkish Lira so that the banks joining the swap operation would further benefit from getting the FX-denominated bonds. By the help of these operations, the Treasury assumed exchange rate risk, but also became more vulnerable to interest rate hikes because of floating interest rate TL bonds.[173]

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[172] When asked about negative effect of financial volatility on public debt and even bailing out financial sector in times of crises, the top level bureaucrats in the Treasury underlined their belief in the power of regulation and risk management.

[173] See the following columns and newspaper pieces: "Takasın faizi sorun oldu" (2001, May 26), *Milliyet*; "Takasta bazı teknik sorunlar var" (2001, June 2), *Hürriyet*, retrieved on August 13, 2009 from http://webarsiv.hurriyet.com.tr/2001/06/02/302423.asp; "Takasta işlem tamam" (2001, June 12), *Radikal*; Korcan, U. (2001, June 14) "Takasta cazip fiyat", *Radikal*; "Hazineden takasa cazip teklif" (2001, June 15), *Radikal*; "Ekonomiye takas nefesi" (2001, June 18), *Hürriyet*, retrieved on August 13, 2009 from http://webarsiv.hurriyet.com.tr/2001/06/18/308508.asp; Gürses, U. (2001, June 19), "Takas sonrası", *Radikal*; Sak, G. (2001, June 21), "Bankalar ve IMF'ye dair", *Radikal*.

Such moments and the forms of intervention, if taken together with the bulk of legal regulations targeting financial deepening and/or dealing with the contradictions arising therefrom and ramifications of financial instability and crises, should lead us to the conclusion that the Turkish state assumed important roles for the consolidation of the position of financial actors. Moreover, the state worked for financial deepening, the inflow of household income to the financial markets[174] and the socialisation of the losses of the financial sector. These were accompanied by the depoliticisation of debt management and the internalisation of fiscal and monetary discipline within the state apparatus.

7. 6. Concluding Remarks

Financial liberalisation and the ensuing financialised accumulation imposed an economic straitjacket upon the state. The role of state in the development of financial sector, depoliticisation of economic management and internationalisation, and the socialisation of the losses of financial sector by the help of state intervention marked the neoliberal period in Turkey. This summary of the reformulation of state-finance nexus in Turkey, with particular emphasis upon the Treasury and policy of debt management point out that strategic selectivity of the Turkish state provided significant advantage for the owners of financial assets.

Beyond the impact of state policies upon particular sections of society such as business groups, the restructuring of the relations between the institutions within the state should be taken into consideration. The survey of the legal regulations, the organization of the public debt market, the relations between banking sector and the Treasury and the restructuring of the relations between state and the financial sector in general leads the present writer to claim that the state-finance nexus in Turkey in the post-1980 period was formulated in such a way that the strengthening of the

[174] One of the facets in the financialisation of the economy, as put in previous chapters, has been the channelling of individual income to the financial markets in the 2000s. This can be considered as another point related to the state-finance nexus in Turkey. What is emphasized as the "real banking" by Turkish bankers (see Hardie, 2008), i.e. gathering of savings to give credits to individuals and corporations and contribute to the efficient allocation of money without incurring liquidity problems, did not pave the ground for boosting loans to business but households in the last decade. For some scholars, consumer lending has become the main source of growth for the banking sector (Tükel et al., 2006: 294).

financial sector is defined as of utmost importance for the public finance and rolling over debt. Methods of public debt financing and the financial atmosphere under the conditions of financial liberalisation have given their flavour to the emergence and deferral of crises. The Turkish state not only paved the ground for financialisation of the economy, but also was restructured through the process of financialisation, a process I prefer to label as *financialisation of the state* or the reformulation of state-finance nexus in the neoliberal period so as to make it possible to identify public interest with the interests of the financial sector.

CHAPTER VIII

CONCLUSION

Financialisation has been experienced in different ways by national and regional economies. The variegation implies t hat there is no uniform process in which the financial transactions blossom, financial intermediation gains weight as a field of economic activity and financial operations start to dominate the economy as a whole. However, this general emphasis on the differences in mechanisms should be accompanied by highlighting the fact that the consequences of financialisation are similar everywhere. While financial markets and transactions are functional for capital accumulation, the milieu in which the utmost concern is making profits out of financial contracts undermines the incentive for new productive investment and leads to staggering rates of GDP growth. As an additional consequence financialisation produces more economic crashes and boom-bust cycles. A plethora of financial innovations and instruments for financial investment provide opportunities for money-holding capitalists, but at the same time makes the economy more dependent upon the functioning of financial markets and thus more prone to crises.

The dependency upon the bull market or constant flow of positive expectations for future GDP growth in advanced capitalist countries and the dependency upon the constant inflow of funds for both new investment and debt rollover in the case of "emerging markets" underline a striking transformation in terms of the attempts to define what is good for society as a whole. Alongside the reference given to the lack of alternatives, the free market creed and the dogma of financial efficiency are more prominent in the definition of good in moral and intellectual terms. This is to say, hegemonic market discourse is based on a chain of equivalence between terms such as market, freedom, efficient allocation, financial opening and deepening, growth and prosperity and so on. By constructing such a chain, monetarist policy makers and proponents of neoliberalism put forward financial sector as both a disciplinary power and the key for rapid growth. This identification of public interest with the interest of financial sector was powerful to the extent that the financial liberalisation and financial sector reform paved the ground for minimising the impact of crises upon the economy.

What is more surprising, taking into consideration the last quarter of the 20th century and the first decade of the 21st century, is that the frequent crises and never-ending volatility of financial markets did not damage the belief in financial sector up until the recent international financial crisis. It would not be an exaggeration to claim that the market-oriented reforms advocated by IFI and business groups have been adapted in many countries with the help of the penetrative power of finance (identifying self-interest with the financial reform and integration) and the circumstances which can be dubbed as the hegemony of neoliberalism. Definition of public interest in such terms that the growth of financial sector and the growing dependency of the economy upon decisions of the representatives of financial sector are connoted as positive aspects, necessitates the liquidation of opposition to market orientation or absorbing the reactions and responses to the market dogmatism. This seems to have been the case in many advanced capitalist countries as well as "emerging markets". The mentioned identification portrays market as a distinct sphere of activity which has its own rules and provides opportunities to its participants. Financialisation feeds upon the ideological stance highlighting financial activity as the natural extension of the market as if the capitalist market is the natural outcome of human transactions and the financial developments follow natural course of events. This naturalistic interpretation portrays financial crises as temporary blips and correction mechanisms of the market. Once the proposition that the public welfare and economic growth will be provided by the unleashed market forces is accepted there remains no room for manoeuvre in terms of regulation of the financial markets.

Late 20th century financialisation has proceeded along these lines and rose upon the acknowledgement of the market as a self-regulating entity. As it has been argued in this study, various schools of political economy and many outstanding scholars elaborated the rise of finance and the transformations affiliated with the integration of financial markets. Critical strands of argument have targeted the market dogmatism. In the case of financialisation literature the detrimental impacts as well as the contradictory character of the social relations of production and the general tendencies of capitalist mode of production have been referred to. The literature has analysed the recent transformations in global economy and particularly, advanced capitalist economies.

Two main criticisms have been directed, in this dissertation, to the literature at large. First one is the neglect of peripheral countries or the economies which have been labelled as "emerging markets" starting from the 1990s onwards. The concentration of studies on Anglo-Saxon economies and core capitalist countries has one simple explanation. These are the economies in which due to the power of financial sector and the role of financial intermediation, the demarcation between the NFCs and the financial sector has been questioned. The share of financial intermediation within the economy and the importance of financial services can easily be detected alongside the staggering rates of GDP growth in many advanced capitalist economies.[175] "Emerging markets" on the other hand performed outstandingly in the last decade given the high GDP growth rates. This however should not be an excuse for the neglect, within the literature of financialisation, of the transformations within the "emerging markets" which increased dramatically their share in global GDP in recent decades. If global economy is conceived as not just an aggregate of national economies then it should be underlined that the financialisation in the advanced capitalist countries impacted upon the economic activity in particular and the state-market relations in general in "emerging markets" searching for funds and liberalising their economies. The resource transfer to the advanced capitalist world (see Boratav, 2009) also impacted upon the Anglo-Saxon financialisation. The "peripheral financialisation" (Becker et al., 2010) is different from Anglo-Saxon financialisation in the sense that the former was characterised by high interest rates

[175] Nicoletti and Scarpetta (2003) exclude personal and social services and calculate business sector GDP growth rates for OECD countries. Their paper indicated that the average growth rate for European Union countries fell from 2,5 % in 1980-1990 period to 2,2 % in 1990-2000 period. OECD average (excluding nine "emerging markets" or small economies) for 24 countries fell from 3,1 % to 2,7 % in the same period. Boratav (2009) underlines a similar downturn in the core and points out the resource transfer from fast growing periphery to the slow growing core of the world economy. Marxists who prefer to refer to the profit rates and problems in the manufacturing sector also prefer to define the post-BW period with terms such as "long downturn" or "overall tendency to stagnation" (see McNally, 2009: footnote 23) with particular reference to the advanced capitalist world..

and capital inflows creating external imbalances and deteriorating productive capacity at the same time. The recurrent crises as well as the growing importance of the financial investment in the "emerging markets" in the neoliberal era necessitate focusing on the financialisation experience in these countries and this dissertation provides further evidence to the contention that financialisation in "emerging markets" is different, as seen in Turkey, with respect to high interest rates and the role of GDI.

The second one concerns the role of the state in financialisation process. Financialisation literature did not extend the discussion for stylised facts in advanced capitalist countries to the restructuring of the state. This can be attributed to the dominance of economists and resurrection of disciplinary boundaries within the field of political economy. Still, it is necessary to provide a discussion of the role of the state and its intervention into the financial sector and attempts for piecemeal regulation of the sector in order to contain the contradictions. This is critical also for understanding the financialisation in "emerging markets", or "peripheral financialisation". The restructuring of the state was critical for not only maintaining the capital inflows but also for deepening the financial market and coping with the contradictions during the process of financial liberalisation and the financialisation of accumulation.

The main theoretical contribution of this thesis is based upon these two points of criticism. Following the footsteps of contributors to the critical state debate, I argue that the intervention of the capitalist state is crucial for shaping the anticipation of future by society at large. The restructuring of the state-finance nexus during the period of financialisation resorted to the portrayal of financial sector as not only benevolent for production and welfare but also vital for the functioning of the economy. It was the success of neoliberalism that the public interest has been identified with the interests of the financial sector even though bloating the financial sector could easily undermine productive investment and lead to financial instability and crises. The state has been continuously restructured during the last three decades as a result of the mentioned identification. The restructuring of the state for the fulfilment of functions such as internalisation of the monetarist discipline within the state branches and the socialisation of the losses of the financial sector in order to restore credit markets can be labelled as the *financialisation of the state*. Such restructuration has been promoted by financial elites, state managers and business groups and has been and will continue to be a matter of struggle among social groups and classes.

Financialisation of capital accumulation is contradictory because of two interrelated phenomenon: On the one hand, the development of financial sector cannot be taken separate from the transformations within and the needs of the production process. Through mobilization of capital, financialisation helps business groups in hedging risk and it provides temporary solutions to the problems of production. On the other hand, financialised accumulation implies a profitable outlet with apparently no relation to productive activity. Accumulation of claims on future flows and thick derivative contracts enable business groups to make money out of financial investment and create an “artifice of indifference” (Wigan, 2009) to the developments in the overall economy.

It is possible to contain these contradictions only temporarily through the intervention of the state. Financialisation in “emerging markets” is also different since the way the state attempts to resolve contradictions temporarily is characterised in the first place, by the implementation of reforms for the deepening of the financial market and maintaining the capital inflows. By way of doing so the state promotes particular strategies which are the produce of preceding struggles. The success of hegemonic formulas depends on the portrayal of these particular strategies as for the benefit of an imagined community as a whole. The moral and intellectual leadership of dominant social groups and classes is provided by the portrayal of the state as the embodiment of the will and interest of this imagined community. Indeed, the interest of this imagined community is being defined along the lines of the interests defended by IFIs and neoliberal policy makers and the interests of financial elites and business groups.

Financialisation of the state by way of presenting the reforms as the extension of international consensus and/or essential for international financial integration (internationalisation of the state) and demarcating economic policy making from political struggle and/or presenting economic management as a technical issue (depoliticisation of economic management) appears to reduce the state to a watchman of the financial sector. Indeed, the state is called to act on behalf of “illusory communal interest” and work with the financial markets in order to take necessary measures for putting the financial innovations to the service of GDP growth and bailout financial sector in times of crisis.

These theoretical reflections and critical discussion needs to be denoted with reference to case studies and explanation of time-specific configurations of state-market relations in different countries. The case of Turkey provided a model case of state pioneering financial deepening and intervening into the market for the socialisation of the losses of the financial sector. The state has also been restructured permanently during the process of financialisation.

The specificity of “emerging markets” in which the Turkish case can be placed resides on the fact that the financialisation proceeded through high interest rates for maintenance of capital inflows and in the name of fight against inflation, rather than stock market boom. The result has been the emergence of public sector as an important debtor (see Becker et al., 2010: 29-30) and the domination of financial markets by GDI. Financialisation has been experienced in different terms within the “emerging markets” as well. But in general terms, high interest rates, rising external debt, overvalued currency and dependency on capital inflows were the main elements in “peripheral financialisation” undermining productive investment.

As this thesis has shown the Turkish case resembles to the financialisation in Latin American countries, with the state’s active role in export orientation, promotion of neoliberal policies, covering the losses of banks and GDI occupying an important place in the financial market. The specificity of Turkish case is that most of the government debt has been bought by domestic banks throughout the post-1980 period, though the ownership structure gradually changed over the years (see Figure 6.7., cf. Hardie, 2011). Given the organization of business groups and their strategies, the domestic debt trap of the 1990s and the bank rescues in Turkey therefore can be interpreted as such: the state crawling under heavy debt burden opened the way for financialisation of the accumulation. The strategy of financial deepening promoted by business groups as well created a milieu in which owning a bank served as the key for making utmost profit from public debt trap and providing access to credit (sometimes beyond the limits) for corporations of the same group. The fragility derived from those factors such as the unsustainability of domestic public debt given the revenues of the state, improper banking practices together with "open position" banking based on arbitrage gain and the dependency of the economy on capital inflows in the aftermath of financial liberalisation.

These properties have given their flavour to the formation of financial crises and ups and downs of the economy in recent decades. The restructuring of the state during the period at hand was both devised as a stimulator of financial deepening and a response to the organization and coordination problems in the face of economic turmoil. Regular auctions conducted by the Treasury from 1985 onwards and attempts to variegate the financial instruments to meet the demands of financial investors should be taken together with the opening of stock exchange and functioning of interbank market. These were some of the basic steps for bracing the market. Given the increased PSBR and lax taxation this has given way to accumulation of public debt and forced the Treasury to resort to the CB resources. Policy makers attempted to restructure the relations between the Treasury and the CB as well as the banking sector in general before the 2001 crisis to cope with inflation and the problems of banking sector. Nevertheless it was only after the 2001 crisis that the use of the CB resources by the Treasury was legally sanctioned, the CB gained operational autonomy and anti-inflationary discourse prevalent in the previous decade turned into first implicit then official inflation-targeting programme. It was through further "depoliticisation" and adoption of international standards to provide financial stability in the aftermath of 2001 crisis and assuming the losses of the financial sector that the Treasury in particular and the Turkish state in general kept on contributing to the financialisation.

This thesis took a critical stance against the arguments which highlight the crowding out of the private sector from the market for loanable funds because of high interest rates. The crowding out perspective ignores the importance of rentier activity for business groups and the importance of the organisational form of business groups (holdings) which include financial corporations. By the help of such a critical stance and a critical evaluation of financialisation argument, it has been pointed out that the increasing share of financial sector in the economy and the increasing involvement of NFCs in financial activities and investment are directly related to the shift in the policy of debt management in the neoliberal period. I have also shown that the restructuring of the financial arm of the state aimed isolating the policy making procedure from popular pressures and mechanisms of democratic deliberation. The contribution of this study, with relevance to the analysis of Turkey is to demonstrate that the alleged failure of the state in limiting the debt burden and containment of contradictions in the aftermath of financial liberalisation is not contradictory with the persistent aim of financial deepening. Intermittent tensions between politicians and the top level bureaucrats of the CB as well as the Treasury, culminating in granting operational autonomy to the CB after 2001 crisis and the submission of the authority over banking sector to BRSA in 1999 were all aspects of the restructuring of the financial arm of the state throughout the process of financialisation. The Treasury was one of the institutions striving for financial deepening and monitoring financial markets. Despite the continuity of resorting to the CB advances and the influence of politicians upon the auction programme of the Treasury in the 1990s, the Undersecretariat was also one of the symbols of the gradual removal of public finance one step away from political decision making. The protocols with the CB regarding monetary discipline, the limitation of advances in 1997 and the legal sanction after the 2001 crisis, auctions for repurchase of GDI for an effective borrowing programme were steps in the internalisation of monetary discipline within the branches of state. Last but not least, the Turkish Treasury was the institution which served as the nodal point in the bank rescues and the socialisation of the losses of the banking sector. As seen in the strategy documents of the Treasury, the success of the institution is tightly related to the deepening of financial markets and the effective integration of Turkish financial system with the international financial markets.

To use the terminology discussed in explicit terms throughout the dissertation, *financialisation of the state* in Turkey brought along the domination of financial markets by GDI as fictitious capital papers, i.e. as claims on future state revenue. The restructuring of the state in that sense, first had an impact on the form assumed by development of the the shallow financial market. During the debt trap of the 1990s, Ponzi finance of the Treasury and fragility of the banking sector paved the ground for crises. Intertwining of the state and the financial sector against the background of the financialisation of the accumulation led the way for implementing further reforms of depoliticisation and internationalisation with regards to the banking sector, monetary policy and the policy of debt management. The financialisation of the accumulation in that sense had impact on the reforms in the late 1990s and the last decade. The domination of the domestic financial markets by GDI as fictitious capital papers was one of the peculiar features of the processes of financial deepening and financialisation of the accumulation in Turkey. These political and economic developments can be read as both the development of financial system and the development of class relations bringing about a new form of state-society and state-economy relations in the neoliberal era. A critical and dialectical point of view reveals that the links between the financialisation of the accumulation and the *financialisation of the state* requires incessant state intervention into the financial markets, albeit in different forms, for the reproduction of the social relations of production.

The literature of financialisation provides a fruitful research agenda. This dissertation attempted to contribute to the literature by way of both pointing out its relative weaknesses and providing a detailed analysis of the transformation in Turkey. Comparison of Turkish case with other “emerging markets” and particularly with the public debt problem in “emerging markets” in the neoliberal period will be useful to assert stronger claims. A detailed analysis of financial systems of major “emerging markets” and the changes in the policy of debt management will be beneficial for understanding the causes of financial crises in these countries and mechanisms devised for the containment of contradictions.

Another point to be taken as an issue of further study is channelling of household and individual income into the financial sector. Extraction of part of the income within the circulation field has been a facet of financialisation as well. It is clear that the workers and members of middle class had to be involved in financialisation for accessing consumption goods and housing in the face of declining real wages. Deterioration of social security services thanks to neoliberalism, which undermined public welfare schemes, increasingly subjected working classes to the financial discipline and yielded the result of allocating a part of their income for financial transactions. The regulation of consumer credit market by the state and the relation between the need to resort to financial markets, increasing household debt and the commodification of public services such as education and health should be carefully discussed to illuminate this dimension of financialisation.

And finally it should be reminded that public debt management and taxation policies can never be grasped in full detail without a political view giving importance to the class struggle and its impact upon the political formulas and struggle for hegemony. Neoliberalism derived most of its power from the use of financialisation dynamics in marketing the "there is no alternative" discourse. As seen in the recent international crisis, corporations, banks and countries are bailed out while mainstream academics and researchers continue to identify the public interest in general with the interests of the financial sector. The impact of public debt upon daily political struggle and the political struggle revolving around the issue of public debt should be studied in depth for a more comprehensive analysis of financialisation.

This dissertation explained the reformulation of state-finance nexus, its impact upon the strategies of business groups and the restructuring of the state with reference to the the Treasury in Turkey in the post-1980 period by way of critically engaging with the financialisation literature. It shows that analysis of financialisation from a political economic perspective should include debates on the restructuring of the state, its intervention into the market and attempt to contain contradictions emanating from not only the mode of integration into world economy but also the growing importance of financial transactions.

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The Association of Capital Market Intermediary Institutions of Turkey www.tspakb.org.tr

Turkish Employment Agency http://www.iskur.gov.tr/

Turkish Statistical Institute www.tuik.gov.tr (www.turkstat.gov.tr)

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APPENDICES

APPENDIX A
SAMPLE QUESTIONS

Where did you work before the Treasury and in which departments did you work within the Treasury?

How would you evaluate the evolution of the institution in the aftermath of financial liberalisation?

How would you evaluate the relations between the Treasury, the CB and the governments?

What has been done within the Treasury for the establishment of mechanisms of internal auditing and effective risk management?

How was the first stategic plan drafted? Do you think that the strategic plan for the period 2009-2013 has been successful?

What is your opinion on the formation of new debt instruments, online-selling of GDI to individuals and its possible impact on the deepening of GDI market?

In the aftermath of 2001 financial crisis, the liabilities of Treasury increased significantly because of the bail-out operation. Should the Treasury perform similar operations if there occurs a similar crisis?

What are the steps that should be taken for deepening of the GDI market and effective debt management?

What are your thoughts on the deepening of private bonds and bills market in Turkey?

APPENDIX B

TURKISH SUMMARY

Finansallaşma farklı ülke ve bölgelerde farklı biçimlerde deneyimlenmektedir. Bu farklılık, finansal işlemlerin artan önemi, finansal aracılık faaliyetinin ekonomide ağırlığını arttırması ve bir bütün olarak finansal işlemlerin ekonomiyi hâkimiyeti altına almasının tek bir biçim altında gerçekleşmediğini ifade etmektedir. Bu genel vurguya karşın finansallaşmanın getirisinin farklı ülke ve bölgelerde önemli benzerlikler barındırdığını da vurgulamak gereklidir (bkz. Epstein, 2005). Finansal piyasalar ve işlemler sermaye birikimi için işlevselken en önemli kaygının finansal sözleşmeler aracılığıyla yüksek getiri elde etmek olduğu bir atmosfer yeni üretken yatırımların altını oyarak gayri safi yurtiçi hâsıla (GSYH) artış oranlarına olumsuz etkide bulunur. Buna ek olarak finansallaşma daha fazla ekonomik kriz ve canlanma-çöküş çevriminin yaşanmasına neden olur. Finansal inovasyonların ve araçların baş döndürücü gelişimi para-sermaye sahipleri için yeni fırsatlar sunarken ekonomiyi finansal piyasaların gel-gitlerine ve istikrarsızlığına mahkûm eder.

Erken kapitalistleşen ülkelerde borsaların yükselmesine ya da GSYH artışına dair olumlu beklenti akışına, geç kapitalistleşen ülkelerde ise hem yeni yatırımlar hem de borç çevrimi için sermaye girişine olan bağımlılığın aslında toplum için neyin iyi olduğuna dair kavrayışımızı da değiştirmesi söz konusudur. Alternatif yoksunluğu yanı sıra serbest piyasaya duyulan inanç ve finansal verimlilik dogmasının ahlaki ve entelektüel anlamda iyinin tanımını biçimlendirmekte olduğunu söyleyebiliriz. Hegemonik piyasa söylemi bu anlamda piyasa, özgürlük, kaynakların verimli tahsisi, finansal açıklık ve derinleşme, büyüme ve refah arasında kurulan bir denklik zincirine dayanmaktadır denilebilir. Bu tarz bir zincir aracılığıyla parasalcı siyaset yapıcıları ve neo-liberalizmin savunucuları finansal sektörü hem bir disipline edici güç olarak hem de büyümeyi sağlayacak anahtar unsur olarak sunmaktadırlar. Kamusal çıkar ve finansal sektörün çıkarları arasında kurulan bu özdeşlik finansal serbestleşme ve mali sektör reformunun ekonomik krizleri engellediği ya da etkilerini hafiflettiği algısını yaratabildiği ölçüde etkili olmaktadır.

Bu bağlamda kamusal çıkar ya da kamu yararı kavramlarının hiçbir zaman masum kavramlar olmadığı da belirtilmelidir. Ancak kişisel çıkar ve kar hırsı karşısında insanların refah ve mutluluklarını arttıracak ya da temel ihtiyaçlarının karşılanmasını sağlayacak bir kamu yararı anlayışı birçok siyasal ve hukuki düzenlemede bir atıf noktası teşkil etmektedir. Politika yapım süreçlerinde kamu yararının tanımı zaman içinde değişmekte ve finansallaşma döneminde bu tanım ağırlıklı olarak sermayenin genişleyen yeniden üretiminde finansal uğrakların önemi sabit alınarak yapılmaktadır.

20. yüzyılın son çeyreği ve 21. yüzyılın ilk on yılı dikkate alındığında şaşırtıcı olan, sık yaşanan krizler ve mütemadiyen devam eden finansal piyasalardaki oynaklığın bahsedilen özdeşliğe yakın zamandaki uluslararası finansal krize kadar ciddi bir zarar vermemiş olmasıdır. Uluslararası finansal kurumlar ve sermaye grupları tarafından savunulan piyasa yönelimli reformların finansın nüfuz edici gücü (kişisel çıkarın finansal reform ve bütünleşmeye bağlanması) ve neo-liberalizmin hegemonyası olarak adlandırılabilecek koşullar altında birçok ülkede hayat bulduğu söylenebilir. Finansal sektörün büyümesi ve ekonominin finansal sektör temsilcilerinin kararlarına artan oranda bağımlı hale gelmesinin olumlu gelişmeler olarak nitelendiği bir bağlamın yaratılması ve kamu çıkarının tanımının bu şekilde yapılabilmesi piyasa dogmatizmine karşı muhalefetin tasfiye edilmesi ya da tepkilerin mas edilmesini gereksinir (Saad-Filho, 2009). Bu aynı zamanda piyasanın kendinden menkul, katılımcılarına fırsatlar sunan ve kendi kendini düzenleyen bir alan olduğu düşüncesinden beslenir. Finansallaşma finansal etkinliği piyasanın doğal uzantısı ve kapitalist piyasayı da insanların karşılıklı eylemlerinin doğal sonucu olarak kabul eder. Bu doğallaştırmacı yorum finansal krizleri geçici arazlar ya da düzeltme mekanizmaları olarak resmetmektedir. Bir kez kamu refahının ve ekonomik büyümenin dizginlenmemiş piyasa güçleri aracılığıyla sağlanacağı kabul edildi mi piyasayı yüceltmeyen politika seçenekleri ve manevra alanı buharlaşır.

Geç 20. yüzyıl finansallaşması bu hattı takip etmiş ve piyasanın kendini düzenleyen bir varlık olduğu kabulü üzerinde yükselmiştir. Farklı siyasal iktisat ekolleri ve araştırmacılar finansın yükselişi ve finansal piyasaların daha da bütünleşmesi ile ilişkili gelişmeleri ele almaktadır. Vurgulanan piyasa dogmatizmi özellikle eleştirel araştırmacılar tarafından hedef tahtasına konmuştur. Finansallaşma literatürü bağlamında kapitalist üretim tarzına mahsus genel eğilimler ve toplumsal üretim ilişkilerinin çelişik karakteri kadar finansın yükselişinin zararlı sonuçları da ele alınmaktadır. Bu yazına daha ziyade iki noktada eleştiri yöneltmek mümkün görünmektedir (ayrıca bkz. Güngen, 2010). Birinci nokta çevre ekonomilerde ya da geç kapitalistleşen ülkelerde özellikle 1990'lardan bu yana yaşanan dönüşümün görmezden gelinmesidir. Anglosakson ekonomiler ve merkez kapitalist ülkelere odaklanmanın basit bir açıklaması şu şekilde verilebilir. Bu ekonomilerde finansal sektörün gelişkinliği ve gücü aşırı boyutlara varmıştır; finansal olmayan şirketlerin yatırım tercihleri de bunlarla finansal şirketler arasındaki ayrımın irdelenmesini gerektirecek kadar finansal alana yönelmiştir. Ekonomide finansal aracılık faaliyeti önemli bir yer kaplamakta, bu gelişmeye yalpalayan GSYH büyüme oranları eşlik etmektedir. Buna karşın geç kapitalistleşen ülkeler ve daha ziyade "yükselen piyasalar" olarak adlandırılan ülkelerde GSYH büyüme oranları son on yıl bağlamında muazzam bir performansı işaret etmektedir. Ancak bu geç kapitalistleşen ülkelerin görmezden gelinmesinin mazeretini teşkil etmemelidir. Eğer küresel ekonomi ulusal ekonomiler demeti şeklinde ele alınamayacaksa, o zaman erken kapitalistleşen ülkelerde finansallaşma eğiliminin geç kapitalistleşen ülkelerdeki ekonomik faaliyet ve daha genel olarak devlet-piyasa ilişkilerini biçimlendirici etkide bulunacağının altını çizmek gereklidir. "Çevresel finansallaşma" (Becker vd., 2010) Anglosakson finansallaşmasından farklı tezahür etmekte, daha ziyade yüksek faiz oranları ve sermaye hareketlerinin yarattığı dengesizlikler aracılığıyla üretken kapasitenin altının oyulması söz konusu olmaktadır.

İkinci unsur finansallaşma sürecinde devletin rolü ile ilgilidir. Finansallaşma literatürü, bugüne kadar, gelişmiş kapitalist ülkelerdeki stilize bulguların analizine devletin yeniden yapılandırılmasına dair bir tartışmayı eklemeyi gerekli görmemiştir. Siyasal iktisat yazınında eleştirel ve disiplinler arası çalışmaların azlığı ve dar bir ekonomi tanımına atfedilebilecek bu durum çelişkilerin kapsanması için devlet müdahalesinin önemini görmezden gelme ve devletin rolünün ayrıntılı bir tartışmasına gereksinim duymama sonucunu doğurmaktadır. Oysa devlet, ve devletin yeniden yapılandırılması, örneğin geç kapitalistleşen ülkelerde sadece sermaye girişlerinin devamı için değil aynı zamanda finansal piyasanın derinleşmesi ve finansal serbestleşme ve birikimin finansallaşması sürecinde açığa çıkan çelişkilerle baş etmek için de devreye sokulmuştur.

Finansal piyasaların derinleşme süreci gelecekte elde edilecek artı-değer ve gelecekte gerçekleşecek gelir akışları üzerinden hak iddialarının daha fazla ve daha kolay bir şekilde el değiştirmesi ve kapitalist birikim sürecinde kredi ilişkilerinin gelişimiyle sermayenin hareketliliğinin finansal varlıklar üzerinden daha net bir şekilde ifade olması şeklinde algılanabilir. Finansallaşma bu bağlamda sermaye birikimine içkin çelişkilerin yansımalarını barındıran bir süreçtir. Hayali sermaye, "değer üzerinde bir iddia" (Marks, 1991) olarak görülebilir. Ödünç verilebilir sermaye gelecekte elde edilecek gelir üzerinde bir iddia olarak var hayali bir özellik sergilemektedir. Bu hak iddialarının birikimi gerçek birikimi doğrudan yansıtmak durumunda değildir. Gelecekteki gelirin *kapitalizasyonu* gerçekte olmayan ancak varlığı üzerinden işlem gerçekleştirilen bir sermaye varsayımı anlamına gelir. Bu varsayım sermayenin para devresini sermaye ilişkisinin tarafları gözünde üretim sürecine dışsallaştırmak gibi bir işlev de görür. Menkul kıymetlerin değişimi faiz oranına ve gelecekte elde edilecek gelire yönelik spekülasyona bağlıdır. Bu düzlemde P – P…M…P' – P', P… P' biçimini alır. Para sahibi ya da bizim örneğimizde finansal yatırımcı için yatırdığı para faiz getiren sermaye biçiminde (bkz. Marks, 1991: 21. Bölüm) görünür. Olmayan bir sermayenin oluşumu aracılığıyla gelecekte elde edilecek gelirin *kapitalizasyonu* aslında üretim alanından bir soyutlamadır. Hisse senetleri üretim sürecinde elde edilecek artı değerin bir kısmı üzerindeki hak iddiasını temsil etmektedir. Devlet tahvilleri de devletin gelirleri üzerindeki iddia olarak görülebilecek taahhüt kâğıtlarıdır. Bu hak iddialarının fiyatlarının en etkili bir şekilde tespitinin bilgi asimetrilerinin olmadığı bir piyasada gerçekleşeceği neo-liberal iktisatçılar tarafından öngörülse de beklenen gelir ve faiz oranları ya da döviz kurları üzerinden fiyatlarda gerçekleşebilecek oynamaların kendisi dahi spekülatif işlemler için yeterince ortam hazırlar. Finansal türevler, tahvil ve hisse senetlerini birbirine bağlayabilir, bir opsiyonu borsa endeksleri, özel tahviller ya da kambiyo oranları ile ilişkilendirebilir ve böylece geleceğe bir düğüm atma girişimi olarak görünürler Riskten korunma ve riski minimize etme (*hedge*) araçları olarak sermayenin harekete geçirilmesinde işlevsel olmalarına karşın sentetik türevler örneğinde de görüldüğü gibi riskin kimin elinde ne ölçüde toplandığının bilinmediği bir durumun ortaya çıkmasına da katkıda bulunabilirler. Bu nedenle hayali sermaye kâğıtları ve finansal türevler sermayenin "harekete geçmesi" için önemli işlevler üstlenmektedirler ancak aynı zamanda sermaye birikimine içkin çelişkilerin finansal piyasalar üzerinden büyük oynaklıklar yaratması ve çöküş ve canlanma çevrimlerinin sıklaşmasına katkıda bulunmaktadırlar.

2007-2009 kredi çöküşü ve takip eden finansal kriz finansal sektörün kayıplarının toplumsallaştırılması için devlet müdahalesinin önemini bir kez daha gözler önüne sermiştir. 1960'lardan itibaren finansal işlemlerin ve finansal sektörün küresel ekonominin gidişatı ve genel olarak toplumsal ilişkilerde giderek daha fazla önem kazanmasına eleştirel bir yaklaşım getiren finansallaşma tartışması krizin nedenleri ve seyrinin anlaşılması yönünde önemli bir zemin sunmasına karşın devlet müdahalesinin niteliği üzerine kapsamlı bir çerçeve ve kavramsal bir tartışma barındırmamaktadır. Bu eksiklik kısmen disiplinler arası bölünmenin sosyal bilimlerdeki diyaloğu kısıtlayıcı etkisinden, kısmen de devlet müdahalesinin öneminin kabulünü ifade eden kısmi referansların yeterli görülmesinden ileri gelmektedir.

Oysa 1970'lerde dünya pazarı ve ulus-devletin dönüşümü üzerine başlayan eleştirel devlet tartışması, devlet müdahalesinin toplumsal ilişkilerin çelişik karakterinin yeniden üretilmesini sağladığı ölçüde hem kapitalizmin yeniden üretimi doğrultusunda kritik önem arz ettiğini, hem de bizzat müdahalenin, çelişkileri uzlaştırmaktan ziyade yeniden üreten bir rol oynadığını vurgulamıştır. Bu tartışmanın ışığında "devletin uluslararasılaşması" ve ekonomi yönetiminin depolitizasyonu" kavramlarıyla da karşılanmaya çalışılan, finansallaşma sürecinde devletin yeniden yapılandırılmasına ilişkin dönüşümleri "devletin finansallaşması" olarak kodlamak yerinde görünmektedir.

Böyle bir kavramsal tartışma ve bir çerçeve denemesi iki noktada ön açıcı olmayı vaat etmektedir: Birincisi erken kapitalistleşen ülkelerde finansallaşma süreci türev piyasalar ve borsalar üzerinden yol alırken geç kapitalistleşen ülkelerde kamu borç kâğıtları ve kamu borç piyasası daha fazla önem arz edebilmiştir. Finansal piyasaların derinleşmesi yönlü devlet müdahalesi de dikkate alındığında geç kapitalistleşen ülkelerde faiz getiren sermaye biçiminin daha ön planda olduğu bir finansallaşmanın bizzat devlet öncülüğünde başladığını söylemek mümkün görünmektedir. İkincisi her iki ülke grubunda da finansal getirinin meşruiyetini destekleyecek bir yasal zeminin oluşturulması ve kriz ya da istikrarsızlık koşullarında finansal sektörün kayıplarının toplumsallaştırılması devlet eliyle gerçekleştirilmektedir. Bu bize kamusal çıkarın finansal sektörün çıkarlarıyla özdeşleştirildiği bir dönemin devlet biçiminin tanımlanması gerekliliğini ifade etmelidir.

Bu vurgular bir açıklayan olarak devlet ve siyasal kurumları çözümlemeye katmaktan ziyade eleştirel bir perspektiften finansallaşma sürecinde devlet müdahalesinin kavramsallaştırılması yönünde bir çabanın önemine işaret etmektedir. Aynı zamanda eşitsizliğin hüküm sürdüğü bir sivil toplum alanının karşısında siyasal ve hukuksal eşitlik üzerinden tanımlanan modern devletin, toplumsal eşitsizliğin yeniden üretiminde bizzat eşitlerin değişim alanı görüntüsü sunan piyasanın varlığına göbekten bağlı olması finansallaşma sürecinde kazandığı yeni boyutlarla birlikte ele alınmalıdır.

1970'lerden bugüne uzanan eleştirel devlet tartışmasına katkıda bulunanların çalışmaları izlenerek şu vurgularda bulunulabilir: Kapitalist devletin müdahalesi toplumun geleceğe dair beklentisini biçimlendirmek bağlamında da önemlidir. Devletin finansal sektörle olan ilişkilerinin finansallaşma sürecinde yeniden biçimlendirilmesi, sektörün sadece üretim ve refah artışı için değil aynı zamanda bütün bir ekonominin varlığı açısından da hayati bir önemi haiz olduğu düşüncesine dayanmıştır. Finansal sektörün aşırı büyümesinin üretken yatırımın altını oyup finansal istikrarsızlık olasılığını güçlendirmesine karşın kamusal çıkarın finansal sektör çıkarlarıyla özdeşleştirilmesi neo-liberalizmin başarısı olarak sayılmalıdır. Parasal disiplinin devlet katında içselleştirilmesi, politika yapım süreçlerinde finansal piyasaların ve sektör temsilcilerinin her zamankinden daha fazla önem arz etmesi gibi dönüşümler ve kredi piyasasını canlandırmak için finansal sektörün kayıplarının toplumsallaştırılması için atılan adımlarda belirginleşen devletin yeniden yapılanma sürecine kısaca devletin finansallaşması adı verilebilir. Bu tarz bir yeniden yapılanma finansal seçkinler, devlet yöneticileri ve sermaye grupları tarafından desteklenmekte ve bir mücadele konusu olmayı sürdürmektedir.

Devletin finansallaşması terimi örneğin Saad-Filho (2009) tarafından daha genel bir bağlamda neo-liberal dönemde devlet müdahalesini betimlemek için kullanılmıştır. Özellikle neo-liberalizmin devlet biçimi şeklinde özetlenebilecek bu tanımlamada Saad-Filho (2009: 253-254) devletin finansallaşmasının neo-liberalizmin yeniden üretimi için olmazsa olmaz olduğunu belirtmektedir. Devlet, artan sayıda politika alanında giderek finansal piyasalara dayanmakta ve devlet müdahalesi ekonominin finansallaşmasını çeşitli araçlarla desteklemektedir. Foster ve Hollemann (2010) ise başka bir gelenekten beslenerek (C.W. Mills ve G. Domhoff'un II. Dünya Savaşı sonrası Birleşik Devletler üzerinden geliştirdikleri "iktidar seçkinleri" yaklaşımı) devletin finansallaşmasını finansal sektörle organik bağı olan yöneticilerin devletin üst kademelerinde görev alması ve "devlet iktidarının koridorlarına finansal seçkinlerin nüfuzu" olarak algılamaktadır. Obama döneminde özellikle Hazine bakanlığı ve ekonominin kilit noktalarındaki yöneticilerin büyük ölçüde finansal şirketlerden devşirilmesine hem ABD hükümetinin geliştirdiği politika tepkilerini hem de finansal yoğunlaşma düzeyinin devlet katındaki yansımalarını açıklamak için atıfta bulunulmaktadır.

İster ilişkisel bir analiz isterse seçkin kuramından beslenen bir çözümleme olsun aslında sermaye birikim sürecindeki dönüşümün devlet katındaki yansımaları ve devlet müdahalesi aracılığıyla çelişkilerin geçici bir süreyle bertaraf edilmesi ya da daha yoğunlaşması bu kavram üzerinden dönen tartışmanın odak noktasını oluşturmaktadır. Bilindiği üzere sermaye birikiminin finansallaşması iki temel olgu nedeniyle çelişik bir görünüm sergilemektedir: Bir yandan finansal sektörün gelişmesi üretim alanındaki dönüşüm ve ihtiyaçlarla ilişkilidir. Sermayenin harekete geçirilmesi aracılığıyla finansallaşma sermaye gruplarının riski minimize etmesine ve üretim alanındaki sorunlara geçici çözümler getirmesine yardımcı olur. Öte yandan finansallaşmış birikim görünürde üretken etkinliğe bağlı olmayan bir getiri alanının varlığını imler. Gelecekteki nakit akışları üzerinde hak iddiasını simgeleyen finansal varlıklar ve kalın türev sözleşmelerinin birikimi sermaye gruplarının finansal yatırım aracılığıyla önemli getiriler elde etmesini sağlar ve ekonomideki gelişmelere ve üretimin sorunlarına dair bir "kayıtsızlık desisesi" (Wigan, 2009) yaratır.

Devlet müdahalesiyle bu çelişkinin üstesinden ancak geçici olarak gelinebilir. Geç kapitalistleşen ülkelerde finansallaşma örnekleri göz önünde bulundurulduğunda devletin sermaye piyasasının derinleşmesi ve sermaye girişlerinin sağlanması için müdahalesinin ve dönüşümünün önemi açıktır. Devlet müdahalesi aslında daha önceki mücadelelerin ürünü olarak bir stratejinin-yönelimin takip edilmesidir. Hegemonik formüllerin başarısı, belirli strateji ve yönelimlerin bir bütün olarak muhayyel cemaatin yararınaymış gibi sunulmasına bağlıdır. Başka bir ifadeyle hakim toplumsal grupların ahlaki ve entelektüel önderliği devletin muhayyel cemaatin çıkar ve iradesinin vücut bulduğu varlık olarak resmedilmesi aracılığıyla sağlanmaktadır.

Devletin finansallaşması, yasal değişiklikler ve mali reformları uluslararası uzlaşının uzantısı olarak ve/veya uluslararası finansal bütünleşme için önemli adımlar şeklinde sunarak (devletin uluslararasılaşması) ve ekonomik politika yapımını siyasal mücadeleden ayırarak ve/veya ekonomi yönetimini teknik bir mesele biçiminde göstererek (ekonomi yönetimini depolitizasyonu) devleti finansal sektörün bekçisi konumuna indirmektedir. Aslında devlet bir "yanıltıcı müşterek çıkar" adına hareket etmeye, finansal inovasyonları GSYH büyümesi emrine amade edecek düzenlemeleri yapmak için finansal piyasa temsilcileriyle çalışmaya ve kriz zamanlarında finansal sektörü kurtarmaya çağrılmaktadır.

Birikimi finansallaşması ve devletin finansallaşması kavramlarını tarihsel bir değerlendirme üzerinden geç kapitalistleşen ülkelerdeki dönüşümü anlamak için kullanmak hem sermaye birkiminin küresel niteliğini vurgulamak hem de piyasanın inşa edilen ve müdahale gerektiren bir ilişkiler ağı olduğunu göstermek açısından faydalıdır. Finansal araçların kompozisyonu ve sermaye hareketlerinin etkileri farklılık sergilese de erken kapitalistleşen ülkelerdeki dönüşümü geç kapitalistleşen ve "yükselen piyasalar" olarak adlandırılan ülkelerdeki finansal piyasaların gelişimiyle irtibatlandırarak ele almak gerekmektedir. BW sonrası dönem, hâkim tartışmalarda görünen siyasa önerilerine ve yönelimlere bakılarak bazı alt dönemlere bölünebilir. 1970'lerde borç krizine kadar olan dönem petro-dolarların ve spekülatif sermayenin dolaşımıyla nitelenebilirken, 1980'ler ve 1990'lar kurumsal yatırımcıların artan önemiyle birlikte, neo-liberalizmin ve Washington uzlaşısının derinleşmesi ile karakterize edilebilir. Geç 1990'ların krizi ve post-Washington uzlaşısı finansal serbestleşme karşısında itirazların yükselmesine zemin hazırlamış öte yandan da yeni bir uluslararası finansal mimarinin oluşturulması önerilerini gündeme getirmiştir. 1980'lerin uluslararası borç krizi sonrasında neo-liberal reformlar ve parasal disiplin istikrarın sağlanması ve ihracatı arttırma yolunun temel taşları olarak gösterilmiştir. Ancak "ulusaşan borç çelişkisi" (Soederberg, 2005) neo-liberal reform döneminde ve finansal serbestleşme sonrasında varlığını sürdürmüştür. Borç cevrimi için dahi olsa kısa vadeli sermaye hareketlerine olan bağımlılık ve borç yüklü bir ortamda çabuk kar arayışı (Nesvetailova, 2005) aynı zamanda finansal inovasyonların artışına katkıda bulunmuştur. Borçlu ülkeleri denetlemek ve parasal disiplini dayatmak bu BW sonrası dönemde uluslararası finansal kuruluşların temel işlevi haline geldi. Bu dönem zarfında borç birikiminin ortadan kaldırılması değil krizlerin kapsanması ve borç ödemelerinin sürdürülmesi temel mesele olarak göründü (Soederberg, 2002) Aslında söz konusu olan gelecekte elde edilecek kamu geliri üzerinden pozisyon almak ve ulusal siyasetin biçimlendirilmesine bu vesileyle katkıda bulunmaktı.

Uluslararası borç krizinin deyim yerindeyse çözülmeyip kapsanması ve ertelenmesi bir "yükselen piyasalar" tahvil piyasası oluşmasına yol açtı. Birçok "yükselen piyasa" için finansal piyasa standartlarına uyum sergilemek daha önemli hale geldi. Aynı zamanda bu kategoride değerlendirilen birçok ülkede rezerv birikimi ve enflasyon hedeflemesi gibi stratejilere başvuruldu. Rezerv birikimi merkez bankalarında büyük fonların bunların bir "son başvuru mercii" olarak hareket etmesine olanak verecek şekilde ve fiyat istikrarını korumak için kullanılmak üzere birikmesi anlamına geldi. Enflasyon hedeflemesi de para otoritesinin parasal disipline bağlı kaldığını ve uluslararası finansal piyasalarda kredi itibarının korunduğunu göstermek üzere benimsendi. Kamu borçlanması bağlamında daha yüksek kredi derecelerine sahip olmak sadece borç çevrimine katkıda bulunmayacak aynı zamanda yüksek kredi derecesine sahip ülke daha kolay fon bulabileceği için finansal oynaklıklar karşısında da bir güvence teşkil edecekti. Ancak finansallaşan birikimin çelişkileri göz önünde bulundurulduğunda herhangi bir ülkenin güvenilir liman teşkil ettiğini varsaymak hatalı olacaktır.

Burada önemli olan nokta, ekonominin istikrarını ve parasal disiplini korumak için alınan önlemlerin aynı zamanda ulusal ve küresel finansallaşmaya katkıda bulunmasıdır. Rezerv birikimi örneğinde görüldüğü gibi dolar cinsinden ABD tahvilleri ve bonolarının "yükselen piyasaların" merkez bankalarında birikimi ABD'nin cari işlem açıklarının sürebilmesine ve uluslararası finansal piyasalarda likidite artışına katkıda bulunmuştur. Öte yandan enflasyon hedeflemesi merkez bankası faaliyetlerini fiyat istikrarının sağlanması ile sınırlandırarak toplumsal ve kalkınmacı kaygıları daha genel bir düzeyde ekonominin ve finansal piyasaların istikrarına daha tikel bir bağlamda da parasal ve finansal disipline tabi kılmıştır. Borç geri ödemeleri ve yeni borçlanma için uluslararası finansal piyasalara başvuran "yükselen piyasa" ekonomileri uluslararası tahvil piyasasının derinleşmesine katkıda bulunurken "yükselen piyasalar" finansal yatırımcılara sıcak birer karşılama olarak tanımlanabilecek reform gündemleri belirlemişlerdir. Bu reformlar, stratejiler ve tercihler ekonominin istikrarını hedeflerken aynı zamanda ekonomilerin finansallaşmasına katkıda bulunmuş ve küresel ve ulusal finansal istikrarsızlıklara rengini vermiştir

Uluslararası finansal piyasalar hem borç çevrimi açısından hem de yeni yatırımlar için gerekli fonların sağlanması açısından "yükselen piyasalar" bağlamında büyük bir önem taşımaktadırlar. Finansallaşma literatürü buna karşın "yükselen piyasalardaki" dönüşüm, finansal derinleşme ve finansallaşmanın üzerinden atlamaktadır. Ancak belirtilmelidir ki bu ülkelerdeki finansallaşma süreci içsel olarak küresel ekonomideki dönüşümlere bağlıdır, bunlardan etkilendiği gibi, bu dönüşüme katkıda da bulunmaktadır. Bu dönüşümün daha ayrıntılı bir şekilde tartışılmasında özellikle sığ finansal piyasaların varlığından bahsedilen ülkelerde devlet müdahalesinin de büyük önem taşıdığı eklenmelidir. Devletler, sadece finansal kuralsızlaştırma politikaları izlemekle kalmamış aynı zamanda neo-liberalizmin konsolidasyonunda önemli bir rol üstlenmiş ve devlet aygıtı içinde parasal bir disiplinin içselleştirilmesi, devlet ve finansal sektör arasındaki ilişkilerin yeniden tanımlanması sayesinde finansal sektörün kayıplarını da üstlenmişlerdir. Bu gözlemler ve tartışılan arka plan ışığında Türkiye ekonomisi ve devletin yeniden yapılandırılmasının Türkiye ekonomisindeki dönüşümle olan ilişkisi finansallaşma dinamikleri göz önünde bulundurularak tartışılabilir.

Türkiye ekonomisi son otuz yıl içinde önemli bir değişim geçirmiştir. Dünya ekonomisiyle bütünleşme sürecinde neo-liberal yönelim finansal piyasalar ve işlemlerin ekonomide artan önemiyle bir arada sürmüştür. Ana akım iktisat anlayışı çerçevesinde, gelişmiş para ve sermaye piyasalarının varlığının ekonomik büyüme ve yeni yatırımlara olanak sağlayacağı aynı zaman istikrarı teşvik edeceği ileri sürülmüştür. Ancak Türkiye'de bu doğrultuda atılan adımların bir istikrar getirdiğinden söz etmek mümkün görünmemektedir ve Türkiye neo-liberal dönemde büyüme ve kriz çevrimleri deneyimlemiştir.

Türkiye'de finansal piyasalarda kamu borç kâğıtlarının hâkimiyeti kamu borçlanmasının ekonomi üzerindeki olumsuz etkilerine atıfta bulunularak tartışılmaktadır. Türkiye'de kamu borç finansmanı 1990'larda bankalar açısından en karlı iş olduğundan ve özel tasarruflar kamu borçlanmasının anapara ve faiz ödemelerini karşılayamayacak boyutlarda olduğundan ekonomi sermaye girişlerine daha da bağımlı hale gelmiştir. Sermaye girişleri ucuz döviz katkısıyla artan cari işlem açıkları gibi sorunların da zeminini hazırlamıştır. Ekonomide artan kırılganlık, sermaye girişleriyle başlayan canlanmanın ilk kısmını oluşturduğu çevrimlerin sermaye çıkışları ve finansal krizlerle sonlanması sürecinin temel unsurudur. Türkiye'de finansal krizler var olan kamu borç dağının daha da büyümesi ile sonuçlanmıştır. Ancak kamu borcu aynı zamanda bir kaynak transferi aracı olarak işlev görmektedir. Sınai yatırımdan uzak duran sermaye gruplarına kamu borç kâğıtları karlı getiriler vaat etmiştir ve etmeye devam etmektedir.

Finansal varlıkların ve özellikle kamu borç kâğıtlarının getirisi 2001 krizi sonrasında giderek azalmıştır. Bu düşüşe rağmen bankaların ve şirketlerin ellerinde bulunan kamu borç kâğıtları stokunda önemli bir azalma meydana gelmemiştir. Aynı zamanda hükümetin para politikası ve uluslararası finansal sistemle artan bütünleşme sermaye gruplarına finansal alanda yeni kanallar da yaratmıştır. Sabit sermaye yatırımlarının GSYH'ye oranının 2001 sonrasında görece yükselmesi GSYH'de imalat sanayinin payında önemli bir artışa neden olmamıştır. Türkiye'ye ilişkin stilize bulgular liberalizasyon ve finansal derinleşmenin ekonominin önceki on yıllara göre daha yüksek ve istikrarlı bir performans sergilemesi anlamına gelmediğini, buna karşın sermaye birikim sürecinin finansallaştığını göstermektedir.

Türkiye'de finansallaşmanın kamu borç kağıtları piyasası üzerinden ve bu kağıtlara ilişkin spekülasyon aracılığıyla tetiklendiğini ve bu piyasanın ekonomide finansal operasyonların giderek önem kazanması sürecinin mihenk taşını oluşturduğunu söylemek uygun görünmektedir. Ekonominin dünya ekonomisiyle neo-liberal bir zeminde bütünleşmesi kamu harcamalarının disiplin altına alınmasını öngörürken, Türkiye'de kamu borucunun yüksekliği bu borç kâğıtlarının kayda değer getiri oranları sunmasına neden olmuştur. Türkiye'de finansal piyasanın derinleşme süreci ve bu piyasada varlığını sürdüren kamu borç kâğıtları hakimiyeti, birikimin finansallaşması sürecini kamu borç yönetimi ile ilişkilendirerek açıklamayı zorunlu kılmaktadır. Bu aynı zamana Türkiye gibi "yükselen piyasa" ekonomilerinde devletin finansal piyasanın derinleşmesi ve finansal işlemlerin birikim süreci açısından artan öneminde oynadığı role ilişkin bir öngörü sahibi olmaya da katkıda bulunacaktır. Çalışmanın bütününde tartışıldığı üzere devletin finansal kolunun yeniden yapılandırılması ve özel olarak de Hazine'nin yeniden organizasyonu ve bankacılık sektörüyle olan ilişkilerindeki dönüşüm Türkiye'de finansallaşmaya katkıda bulunmuştur

Bu bağlamda Türkiye'de ekonominin finansallaşmasına dair stilize bulguları sıralamanın ötesine geçerek devletin yeniden yapılandırılmasının finansal piyasaları biçimlendirici etkisi üzerinde durmak gerekmektedir. Türkiye'de kamu borç yönetimi üzerinden sürdürülecek bir tartışma Hazine'nin yeniden yapılandırılmasını, devletin finansallaşmasının önemli bir parçası olarak gösterebilir. Bu sürecin sacayaklarından birincisi finansal derinleşme ve finansal piyasaların etkin bir şekilde işlemesi için sürdürülen yasal-siyasal düzenleme çabalarıdır. Hazine ve Dış Ticaret Müsteşarlığı'nın ilk Özal hükümeti döneminde kuruluşu, bakanlıkların yeniden düzenlenmesi ve sistematik olarak finansal piyasalardan borçlanarak borcun çevrilmesi tercihleri bir siyasa değişikliğini işaret etmektedir. Bu dönemde bankaların rezervlerinin denetimi üzerinden bir para politikası biçimlendirme çabası görülmüştür. Aynı zamanda menkul kıymet işlemlerinin sermayenin harekete geçirilmesi açısından öneminin vurgulanması siyaset yapıcıların finansal derinleşmeye atfettiği öneme işaret etmektedir. Bu bağlamda reformların aldığı süreye ve krizlere karşın süreklilik gösteren bir finansal derinleşme çabasından bahsetmek mümkündür.

İkincisi uluslararasılaşma ve siyaset dışılaştırma stratejileridir. Her ne kadar finansal piyasaların derinleşmesi sürecinde kamu borçlanma gereksinimi olumsuz bir faktör olarak gösterilse de, hem 1980'lerdeki yasal düzenlemeler hem de 1990'ların ikinci yarısından itibaren görülen yeniden düzenleme girişimleri, bir yandan devlet aygıtı üzerindeki iktisadi boyunduruğu sağlamlaştırırken öte yandan da reformları uluslararası uzlaşının getirisi ve küreselleşen ekonominin gerekleri şeklinde sunmuştur. Uluslararası standartların kamu siyasetinin biçimlendirilmesin referans noktaları olarak kullanılmasını da barındıran bu uluslararasılaşma stratejilerine ekonomi yönetiminin teknik ve siyaset dışı bir süreç olarak konumlandırılması eşlik etmiştir. Kamu borç yönetiminde borç tanımlarının uluslararası standartlar benimsenerek yapılmasından Hazine'nin uluslararası örnekler göz önünde bulundurularak yeniden yapılandırılmasına, bankacılık sektörünün denetiminin yeni kurulan bir düzenleyici kurula devrinden borç yönetiminin Müsteşarlık tarafından yürütülen ve siyasetçilerin karar ve müdahalelerinden soyutlanmış bir iş olarak örgütlenmesi girişimlerine kadar birçok unsur devlet aygıtında bu stratejilerin uygulanmakta olduğunun göstergelerini teşkil etmektedir.

Üçüncüsü ise finansal sektörün kayıplarının toplumsallaştırılmasıdır. Vergilendirme tercihleri ve vergi politikasındaki değişiklikler bu bağlamda önem taşıdığı gibi 2001 Haziran'ındaki borç takası ve 2001 krizi sonrasında bankacılık sektörünün yeniden düzenlenmesi sürecinde doğrudan kamu borç kâğıtları kullanımıyla finansal sektörün kayıplarının toplumsallaştırıldığı bilinmektedir. Finansal sektörün sorunsuz işleyişi ekonominin gidişatı açısından hayati önemi haiz bir şekilde tanımlandıktan sonra finansal krizlerde yapılması gerekli olan şey sektörün yeniden işlemesini sağlayacak kurtarmanın gerçekleştirilmesi olarak durmaktadır. Kısaca belirtilecek olursa Türkiye'de devletin stratejik seçiciliği sermaye grupları açısından finansal sektörde pay sahibi olmayı önemli kılmış ve finansal varlıklar üzerinden kar arayışı peşinde koşan sermaye gruplarına önemli avantajlar sağlamıştır. Ekonomik krizler ve birçok sermaye grubunun bankacılık sektöründen çekilmek durumunda kalması Türkiye'de hakim sınıf olarak büyük sermayenin birikimin finansallaşması sürecinden büyük kazanımlar elde ettiği sonucuyla çelişmemektedir.

Çalışmada yasal düzenlemeler, kamu borç piyasasının yeniden düzenlenmesi, bankacılık sektörü ile Hazine arasındaki ilişkilerin seyri ve devlet ve finansal sektör arasındaki ilişkilerinin yeniden yapılandırılması süreçlerinin incelenmesi bizi Türkiye'de 1980 sonrası dönemde devlet-finans ekseninin yeniden formüle edildiğini ileri sürmeye götürmektedir. Bu formülasyonda finansal sektörün güç kazanması ve finansal derinleşme kamu finansmanı ve borç çevrimi açısından oldukça önemli bir hal almıştır. Kamu borcunun finansmanı ve çevrimi sorunları finansal krizlerin ortaya çıkışında ve bu krizlerin aldığı biçimlerde önemli bir yer edinmiştir. Türkiye devleti sadece ekonominin finansallaşmasının önünü açmamış aynı zamanda finansallaşma sürecinde yeniden biçimlenmiştir. Yukarıdaki sacayakları üzerinden gerçekleşen dönüşüme bu çalışmada devletin finansallaşması adı verilmiştir. Sermaye grupları ve siyaset yapıcılar tarafından savunulan bu eğilim ve yönelim kamusal çıkarın finansal sektör çıkarlarıyla özdeşleştirilmesi yönünde önemli bir mesafe kat etmiştir.

Devletin finansallaşması bir kavram olarak finansallaşma tartışmasına devletin dâhil edilmesini ve devlet müdahalesinin bu bağlamda yeni bir gözle incelenmesini sağlayabilecektir. Bir süreç ve eğilim olaraksa, devletin finansallaşması temelde kamusal çıkarın finansal piyasaların çıkarıyla özdeşleştirilmesini işaret etmektedir. Bu eğilim, benzer terimlerle kısaca tekrarlayacak olursak, üç ayak üzerine inşa edilmektedir: Birinci unsur finansal derinleşmeyi ya da finansallaşmayı destekleyecek yasal değişiklikler gerçekleştirilmesi ve finansallaşmış birikimi teşvik için ve/veya buradan kaynaklanan sorunlarla yine finansal mekanizmalara dayanarak baş etmeye yarayan düzenlemelerin vuku bulmasıdır. İkincisi devletin parasal disiplini içselleştirecek şekilde yeniden yapılandırılması, devlet aygıtındaki kurumların bu amaç doğrultusunda performanslarının ölçülmesi ve kurumlar arası ilişkilerin finansal piyasalara tabi olma doğrultusunda değiştirilmesidir. Üçüncüsü ise finansal sektörün kayıplarının her koşulda toplumsallaştırılması ve aynı zamanda finansal işlemlere dair hâkim algıya zarar gelmesini engellemektir. Bu kuramsal tespitler ve eleştirel tartışma, ülke örnekleriyle ve devlet-piyasa ilişkilerinin belirli zamanlardaki konfigürasyonunun açıklanmasıyla birlikte ele alınmalıdır.

Finansallaşma nasıl üretken alandaki gelişmelere ve rekabetin dayatmalarına karşı bir "kayıtsızlık desisesi" yaratıyorsa devletin finansallaşması da temel hak ve özgürlükler, bireylerin temel ihtiyaçlarının karşılanması vb. konularda devlet katındaki kayıtsızlıkları pekiştirme tehdidi taşımaktadır. Bu bağlamda politika yapım sürecinde finansal piyasalara bu kadar bel bağlanması sorunların ancak finansal piyasalara muştu teşkil edecek şekilde ve emek aleyhine çözülmesi anlamına gelecektir.

Çalışmada gösterildiği üzere Türkiye'de finansallaşma süreci devletin ihracat yönelimindeki aktif rolü, neo-liberal politikaların teşviki, bankaların kayıplarının toplumsallaştırılması ve finansal piyasalarda kamu borç kâğıtlarının hakimiyeti gibi unsurlar göz önünde bulundurulduğunda Latin Amerika ülkelerinin durumuna benzerlik arz etmektedir. Türkiye'deki sürecin özgüllüğü kamu borç stokunun çok önemli bir kısmının 1980 sonrası dönemde bankacılık sektörünün (ulusal ölçekte faaliyet gösteren bankalar) elinde bulunmasında yatmaktadır. 2001 sonrasında mülkiyet yapısındaki değişim ve uluslararası oyuncuların hem bankacılık sektöründeki paylarının artışı hem de doğrudan kamu borç kâğıtlarına yatırımları aracılığıyla gerçekleşen sınırlı farklılaşmalar bu noktada not edilmelidir.

Sermaye gruplarının örgütlenişi, devletin 1990'larda içine girdiği kamu borç kapanı, finansal krizler ve sonrasındaki banka kurtarmalar şu şekilde özetlenebilir: kamu borç yükü altındaki devlet birikimin finansallaşmasında önemli rol oynamıştır. Sermaye grupları tarafından da teşvik edilen finansal derinleşme stratejisi 1980 sonrası dönemde bank sahipliğini kamu borç kapanının yarattığı atmosferde en fazla payı almak ve aynı grup içindeki şirketlere zaman zaman yasal limitlerin ötesinde bir kaynak sağlanması açısından daha da önemli kılmıştır. Kamu borcunun sürdürülemezliği ve bankacılık sektöründeki usulsüzlüklerle birlikte arbitraj hesapları üzerinden "açık pozisyon" bankacılığının da pay sahibi olduğu kırılganlıklar, sermaye girişlerine finansal serbestleşme sonrasında artan oranda bağımlılığın yaşanmasıyla birlikte finansal krizlere yol açmıştır

Bu özellikler finansal krizlerin oluşumuna ve ekonominin inişli çıkışlı büyüme performansına renklerini vermişlerdir. Devletin bu dönemde ekonomi yönetimi alanında yeniden yapılandırılması hem ekonomik çöküş ve kırılganlıklara bir tepki hem de finansal derinleşme amacının güden bir yeniden düzenleme girişimi olarak görülmelidir.

Bu çalışma aynı zamanda özellikle 1990'larda yüksek faiz oranları nedeniyle özel sektörün borç verilebilir fonlar piyasası dışına itildiğini vurgulayan görüşlere karşı eleştirel bir tutum takınmıştır. Bahsedilen piyasa dışına itme olgusu sermaye grupları için rantiyeci faaliyetin önemini ve Türkiye'de sermaye gruplarının holdingler tarzındaki örgütlenmesi durumunu görmezden gelmeye meyletmektedir. Finansallaşma literatürünün eleştirel bir yorumlanmasından da destek alınarak ifade edilebileceği gibi Türkiye'de kamu borç yönetimindeki siyasa değişikliği ve neo-liberal reformların uygulanması 1980 sonrası dönemde finansal işlemlerin ekonomideki önemini arttırmış ve finansal piyasalarda kamu borç kâğıtları büyük bir paya sahip olmuşlardır. Siyaset yapıcıların tercihleri ve reform zamanlaması ekonominin gidişatında daha farklı etkilerde bulunabilecektir. Ancak Hazine'yi ya da kamu borç yönetimini günah keçisi ilan etmek bir yandan sürekliliğini koruyan finansal derinleşme çabasını görmezden gelmek öte yandan da kamu borçlanmasının sermaye gruplarına kaynak aktarımı açısından işlevsel olabileceğini unutmak anlamına gelecektir.

Türkiye devletin finansal derinleşmenin öncüsü olmaya soyunduğu ve finansal sektörün kayıplarının toplumsallaştırıldığı bir model teşkil etmektedir. Türkiye'de devlet finansal varlıkların GSYH'ye oranı artarken ve finansal aracılık faaliyeti giderek ekonomide önemli bir pay kaplarken aynı zamanda yeniden yapılandırılmıştır. Türkiye örneğinin de içlerine yerleştirilebileceği geç kapitalistleşen ülkelerde finansallaşmanın borsanın yükselişinden ziyade enflasyon karşıtı mücadele adına reformlar ve sermaye girişini canlı tutmak üzere yüksek faizle birlikte yol aldığı ifade edilebilir. Sonuç kamu sektörünün ciddi bir borç yükü altına girmesi olmuş (Becker vd., 2010) ve finansal piyasalarda kamu borç kağıtları önemli bir yer işgal etmiştir. Geç kapitalistleşen ve uluslararası aktörler tarafından çoğunlukla "yükselen piyasalar" olarak adlandırılan ülkelerde yüksek faiz oranları, artan dış borç, yerli paranın aşırı değerlenmesi ve sermaye girişlerine olan artan bağımlılık üretken yatırımın altını oyan "çevresel finansallaşmanın" ana unsurlarını oluşturmuşlardır.

Finansallaşma literatürü verimli bir araştırma gündemi sağlamaktadır. Bu çalışma hem finansallaşma literatüründeki eksikliklere vurgu yapmış hem de Türkiye örneği üzerinden bir inceleme gerçekleştirmiştir. Türkiye'nin benzer konumda bulunan başka geç kapitalistleşen ülkelerle karşılaştırılması ve neo-liberal dönemde kamu borcu ile finansal piyasaların derinleşmesi arasındaki ilişkinin başka ülke deneyimlerinde de incelenmesi daha kapsamlı tespitlerde bulunmayı sağlayacaktır.

Ulusal ekonomilerin dünya ekonomisine entegrasyonu süreci ve geç kapitalistleşen ülkelerde yaşanan dönüşüm finansallaşma sürecini bu ülkeler için de gündeme getirmiştir. Sadece Anglosakson ekonomilerin ya da erken kapitalistleşen ekonomilerin finansallaşmasından söz edilemez. Göreli olarak sığ finansal piyasalara sahip ekonomilerde finansallaşma sürecinde erken kapitalistleşen ülkelerdeki sürecin aynısının yaşanması beklenmemelidir. Finansallaşma ile özdeşleştirilen yeni finansal araçların gelecekte elde edilecek artı değer ya da gelir üzerindeki hak iddiası olmak bakımından geleneksel araçlarla olan benzerliği akılda tutulmalıdır. Bu bağlamda finansallaşma yeni finansal araçlar ve türevler kadar hayali sermaye oluşumu ile de yol almaktadır.

Hane halkı ve bireysel gelirin finansal piyasalara akması, bu gelir üzerindeki hak iddialarını temsil eden hayali sermaye kâğıtlarının oynadığı rol ve üstlendikleri işlevler daha ayrıntılı bir finansallaşma tartışması için göz önünde bulundurulması gereken unsurlardır. Ücretlerin baskılanması birçok işçi sınıfı ve orta sınıf mensubunu borç yükü altına yaşamaya mecbur bırakmıştır. Neo-liberalizm döneminde sosyal güvenlik sistemindeki dönüşümler, eğitim ve sağlığın metalaşması gibi süreçler çalışan sınıfları giderek artan bir oranda bazı temel ihtiyaçlarını karşılamak üzere finansal piyasalarla ilişkiye girmeye ve finansal disipline tabi olmaya zorlamıştır. Tüketici kredisi piyasasının düzenlenmesi ve kamu hizmetlerindeki dönüşümün finansallaşmanın başka bir boyutunu ele almak için tartışılması gerekmektedir.

Daha kapsamlı bir finansallaşma tartışması için borç yönetimi ve vergilendirme politikalarının bir siyasal mücadele ürünü olarak biçimlendikleri ve bunların sınıf mücadelesinin öneminin altı çizilerek ele alınmaları gerektiği belirtilmelidir. Neo-liberal hegemonyanın kurulması ve güçlenmesi başka bir alternatifin söz konusu olmadığı düşüncesinin yayılmasına bağlıdır. 2007-2009 finansal krizinde ve takip eden Avro bölgesi krizinde açık bir şekilde görüldüğü üzere ana akım akademisyenler ve araştırmacılar kamusal çıkarı finansal sektörün çıkarlarıyla özdeşleştirme çabalarını sürdürmekte ve böylelikle yıpranmış neo-liberal yönelimi eleştirileri kapsayarak taze tutmaya çalışmaktadır. Kamu borcunun gündelik siyasal mücadeleye olan etkisi ve kamu borcunun yönetimi etrafında süregiden mücadelenin sınıfsal bir analizi de daha kapsamlı bir çalışma için yardımcı olacaktır.

Bu tez devlet-finans eksenin yeniden formülasyonunu Türkiye bağlamında açıklayarak, kamu borç yönetiminin sermaye gruplarının stratejileri ve devletin yeniden yapılandırılması üzerine olan etkisini tartışmıştır. Türkiye'de Hazine Müsteşarlığı'nın devlet aygıtı içindeki konumu ve özellikle Hazine'nin finansal sektör ile olan ilişkilerini finansallaşma yazınından eleştirel bir şekilde beslenerek açıklamıştır. Devlet sadece dünya ekonomisiyle bütünleşme sürecinde ortaya çıkan değil ayrıca finansal işlemlerin artan öneminin kapitalist birikimde keskinleştirdiği çelişkilerin kapsanması girişimi bağlamında da önem arz etmektedir. Çalışma finansallaşma yazınının devletin yeniden yapılandırılması ve devletin piyasalara olan müdahalesi üzerine olan tartışmaları kapsaması gerektiğini göstermektedir.

APPENDIX C

CURRICULUM VITAE

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EDUCATION

Degree	Institution	Year of Graduation
Ph. D.	Middle East Technical University Political Science and Public Administration (PSPA)	2012
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BS	Middle East Technical University – PSPA	2003

WORK EXPERIENCE

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FOREIGN LANGUAGES

English (Advanced), Spanish (Elementary)

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APPENDIX D

TEZ FOTOKOPİSİ İZİN FORMU

ENSTİTÜ

Fen Bilimleri Enstitüsü	
Sosyal Bilimler Enstitüsü	X
Uygulamalı Matematik Enstitüsü	
Enformatik Enstitüsü	
Deniz Bilimleri Enstitüsü	

YAZARIN

Soyadı : GÜNGEN
Adı : ALİ RIZA
Bölümü : SİYASET BİLİMİ VE KAMU YÖNETİMİ

TEZİN ADI (İngilizce): DEBT MANAGEMENT AND FINANCIALISATION AS FACETS OF STATE RESTRUCTURING: THE CASE OF TURKEY IN THE POST-1980 PERIOD

TEZİN TÜRÜ : Yüksek Lisans [ ] Doktora [X]

1. Tezimin tamamından kaynak gösterilmek şartıyla fotokopi alınabilir. [X]
2. Tezimin içindekiler sayfası, özet, indeks sayfalarından ve/veya bir bölümünden kaynak gösterilmek şartıyla fotokopi alınabilir. [ ]
3. Tezimden bir (1) yıl süreyle fotokopi alınamaz. [ ]

TEZİN KÜTÜPHANEYE TESLİM TARİHİ: