TRANSFORMATION OF THE FINANCE CAPITAL IN SPAIN AND TURKEY: A COMPARATIVE POLITICAL ECONOMY PERSPECTIVE

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ABSTRACT

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The world political economy passed through sea changes starting from the early-1980s. The transformation of the finance capital was an indispensible and important aspect of this change. Most of the countries in this process adapted themselves in line with the abovementioned transformation and liberalized their financial systems. However, the specific country practises diverged from each other considerably. On the one hand, some of the countries transformed their finance capital as part and parcel of a comprehensive political economy framework. As a result of the strategic involvement of the state ('pro-active states') and the organic interaction between the interest groups in the industrial and financial sphere, the transformation of financial systems materialized within the context of the upward restructuring of the overall political economy structure of these countries. On the other hand, some countries could not establish the productive link between industrial, financial and state elites ('reactive states') and the financial transformation exacerbated the structural problems in the countries in question. As illuminating examples of the former and latter categories, Spain and Turkey represent instructive cases in point. In this regard, the aim of this study is to make a comparative political economy analysis between the transformation of the finance capital in Spain and Turkey and to pinpoint the diverging paths of the political economy structures of these countries.

Keywords: Spanish finance capital, Turkish finance capital, 'pro-active' states, and critical political economy

ÖZ

İSPANYA'DA VE TÜRKİYE'DE FİNANS KAPİTALİN DÖNÜŞÜMÜ: MUKAYESELİ BİR POLİTİK EKONOMİ PERSPEKTİFİ

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Dünya politik ekonomisi 1980'lerin başından itibaren büyük bir değişimin içine girmiştir. Finans kapitalin dönüşümü de bu kapsamlı değişimin çok önemli ve ayrılmaz bir parçasını oluşturmaktadır. Süreç içerisinde birçok ülke finansal sistemlerini dönüştürmek ve liberalleştirmek suretiyle bu değişime ayak uydurmuştur. Ancak, ülkesel bazda ele alındığında çok değişik metodlar izlendiği görülmektedir. Bir grup devletler ('pro-aktif' devlet), finansal sistemdeki dönüşümü daha kapsamlı bir politik ekonomi dönüşümünün parçası olarak değerlendirmiştir. Sonuçta bu ülkelerde devletin sürece stratejik müdahalesi ve finansal elit ile endüstriel elit arasında tesis edilen organik bağ neticesinde finans kapitalin dönüşümü sözkonusu ülkenin genel olarak politik ekonomisini olumlu yönde yeniden yapılandırmasının bir aracı olarak kullanılabilmiştir. Diğer bir devlet grubu ('reaktif' devlet) ise, devlet eliti, finansal ve endüstriel elit arasında verimli bir bağın tesisini sağlayamamış, finans kapitalin dönüşümü yapısal sorunların şiddetlenmesi sonucunu doğurmuştur. Bu açıdan bakıldığında İspanya ve Türkiye birinci ve ikinci kategorilere ilişkin aydınlatıcı örnekler olarak ön plana çıkmaktadır. Bu bağlamda bu tezin amacı İspanya ve Türkiyedeki finans kapitalin dönüşümünü mukayeseli politik ekonomi perspektifinden analiz etmek ve iki ülkenin politik ekonomilerinin nasıl farklı şekillerde dönüştüğünü incelemektir.

Anahtar Kelimeler: İspanyol finans kapitali, Türk finans kapitali, 'pro-aktif' devletler, eleştirel politik ekonomi

To My Family;

My father, my mother, my sister, my brother, Gülsevil, and Muzaffer

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CHAPTER 1

INTRODUCTION

The present thesis is an attempt to develop a comparative political economy analysis of the transformation of finance capital[1] in Spain and Turkey over the last three decades –a period termed as 'neoliberal globalization' in the lexicon.[2] The world political economy passed through sea changes starting from the early-1980s. The transformation of the finance capital was an indispensible and important aspect of this change. Most of the countries in this process adapted themselves into the incoming system and liberalized their financial structures. During this adaptation period, the relationship between financial globalization and the role of nation states has turned out to be one of the most controversial and hotly debated issues. According to the conventional approach, globalization has constrained the sovereignty and capability of nation states significantly (Ohmae, 1995, 2005) and 'eclipsed the state' (Evans, 1997).

The 'globalist orthodoxy', as Weiss (1997) coined the term, relies on a new logic of global capitalism which assumes that "states are now virtually powerless to make real policy choices; transnational markets and footloose corporations have so narrowly constrained policy options that more and more states are being forced to adopt similar fiscal, economic and social policy regimes" (Weiss, 1997: 3). Since

[1] Finance capital is a controversial concept in political economy. Accordingly, different perspectives define the concept in a different manner. In this study, finance capital refers to the financial institutions (mainly the banks) that have organic links with the industrial sector (Gültekin-Karakaş, 2009b: 105-108).

[2] Globalization has become the battlefield of our age on which different ideologies, perspectives, academic disciplines and societal actors clash. Many few subjects have polarized people in the world as deeply as globalization does (Stiglitz, 2004a: 200). The conceptualization of globalization differs widely from one perspective to another. On the one extreme, hyper-globalists define globalization "as the unprecedented and inevitable development which cannot be resisted or significantly influenced by human intervention" (Held, 2004: 22), and welcome it as the executioner of nation-states (Ohmae, 1995, 2005). According to them, globalization alleviates poverty significantly and helps narrowing the inequality gap between the poor and the rich (Mishkin, 2006; Dollar, 2004). On the other extreme, globalization is "a little more than Americanization" (Giddens, 2002: 15-16). They see globalization as an "ideological crusade" which is directed by big business toward labor classes, and the vulnerable people like women and children. Some others define the term as a "project" rather than a "trend" (McMichael, 2000: 101-113).

states are regarded as the 'passive victims' of the global structure, the financial globalization process is perceived as the "realm of necessity to which states must adapt" (Hobson and Ramesh, 2002: 7). In other words, nation states have nothing to do but to obey the standard rules of the neoliberal financial globalization by deregulating financial markets, liberalizing foreign direct investment regimes and privatizing state entities (Weiss, 2000: 9-12; Weiss, 1999:129; Stiglitz, 2004b). Since the 'world is becoming flat' as a result of the global market forces (Friedman, 2005), the nation states are forced to act within the context of the 'golden straitjacket' (Friedman, 2000), which restricts them to play an active role during the integration process. Over the period in question the theoretical explanations downgrading the state's role in the economy is also underpinned via business schools, economics departments of universities, research institutions and think-tanks. In this framework, the 'neoliberal rationality of government' increasingly dominated the politics and governance literature starting from early 1980s (Fougner, 2006). Accordingly, it is widely argued that "individual and/or individualized entities are constituted and acted upon as flexible and manipulable subjects with a rationality derived from arranged forms of entrepreneurial and competitive behavior [and] the main responsibility for economic activity is ascribed to private market actors" (Fougner, 2006: 176).

If the comparative literature on the issue is reviewed, however, it is possible to see that the specific country practices diverged from each other considerably and several states served as very active players over the last three decades in internationalizing their economy in general and their finance capital in particular (Weiss, 1997, 1998, 2000; Hobson and Ramesh, 2002; Evans, 1997; Wade, 1990).[3] Yet, in the final analysis, it is up to the 'state capacity' and 'particular state strategies' whether to

[3] The approaches proclaiming the decline of the state assume that the nation states are 'territorially fixed' entities in the sense that "global capital can 'exit' the national territory and dictate terms to the state as a result of its ability to outflank it" (Hobson and Ramesh, 2002: 10). This understanding interprets globalization and state interaction in a mutually exclusive manner and forces the analysts to declare either the state or global structure as the winner and loser (Hobson and Ramesh, 2002: 10; Weiss, 2000). However, during the 1990s, an important body of literature emerged revealing the mutually reinforcing link between state and business, especially in the East Asian context; see Wade (1990). For a useful review of the early literature on 'developmental state' discussions; see Öniş (1991). During the late 1990s, the changing perception of state-market relations have become the central theme for the students of world politics and forced the International Relations Theory to go beyond conventional wisdom; see Clark (1998), Scholte (1997), Yeung (2000).

gain competitive advantage in terms of the political economy consequences of their intervention mechanisms, especially from finance capital viewpoint. On the one hand, some of the countries transformed their finance capital as part and parcel of a comprehensive political economy framework. As a result of the strategic involvement of the state ('pro-active' states) and the organic interaction between the interest groups in the industrial and financial sphere, the transformation of financial systems materialized within the context of the upward mobilization of the overall political economy structure of these countries. On the other hand, some countries could not establish the productive link between industrial, financial and state elites during the process ('reactive' states) and the financial transformation exacerbated the structural problems in the countries in question.

In the literature, there are different names given to the states following active integration strategies in the market. In the early counter critique of the globalist thesis –which is termed as 'institutionalist perspective', the concept of 'developmental state' comes to the fore (Öniş, 1991: 110). Accordingly, this perspective aims to;

> ...Transcend the structuralist development economics which downplayed the key role of markets in the industrialization process. Similarly, it attempts to transcend the subsequent neoclassical resurgence which rapidly moved to the opposite extreme and interpreted all successful industrialization episodes as the outcome of free markets, with the necessary corollary that the domain of state intervention in the economy had to be restricted as far as possible.

At the core of the 'institutionalist political economy' arguments (Chang, 2002a; Chang, 2002b) there is an autonomous state that sets the institutions for determining the rules of the market and guides the firms operating in the marketplace. The determination of the long-term developmental goals in collaboration with the market actors creates the 'synergy' for gaining competitiveness at the international fora. There are mainly two characteristics of 'developmental states.' These are state autonomy which enables bureaucrats to act relatively independently and the public-private cooperation that enables creating the 'synergy' to exploit opportunities both at home and abroad (Öniş, 1991: 114). In a similar vein, restructuring the finance capital and designing selective credit policies constitutes the central aspects of ‘developmental states’, *inter alia* (Şenses and Öniş, 2005: 368).

There also emerged different conceptualizations in the literature to challenge the ‘globalist orthodoxy’ during the late 1990s. For example, Weiss (1997: 15) uses the term ‘strong state’ or ‘institutionally strong state’ in order to refer to a state “with the organizational capacity for governing industrial transformation [instead of] neoliberal dictums.” The ‘strong state’, argues Weiss, is a *condition*, not an *obstacle*, for the successful internationalization of national economies and finance capital to the global economy. In this regard, the strategies followed by the ‘strong states’ are to support local firms to raise money in foreign capital markets, to supplement private overseas investments with official assistance,[4] to encourage and financially support the mergers and acquisitions of domestic private firms in order to increase their competitiveness *vis-á-vis* the others (especially in banking, telecommunications, infrastructure), and to assist the national firms to relocate operations overseas (Weiss, 1997: 22-23). As the key strategies reveal, the “partnership of government and business” remains at the heart of the ‘strong states’ concept (Weiss, 1998).

Similar to Weiss’ ‘strong state’ argument, Evans (1997: 69-70) uses the term ‘high stateness’ and claims that “successful participation in global markets may be best achieved thorough more intense state involvement” ─which necessitates overhauling the pervasive approach that the state involvement and globalization are mutually antagonistic. After then, he demonstrates the East Asian and Singapore cases as the evidence of “a positive connection between high stateness and success in a globalizing economy” (Evans, 1997: 70).[5] In a different study, Ünay (2006: 23-24) uses the concept ‘strategic-effective state’ in order to define the new conceptualization of state-market relations in the global era.

> [Strategic-effective state] is a state form which prioritizes the goals of economic development and increased competitiveness in the global

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[4] The official assistance strategy of Spain in Latin America mainly due to economic penetration concerns of private sector will be examined in Chapter 3.

[5] For a detailed examination of the political economy of successful intervention of Singapore state and state-business cooperation in this country; also see Hobson and Ramesh (2002: 13-18).

> economy with a long term and strategic vision; engages in intensive coalition-building and conflict resolution in a politically sensitive and inclusive manner; appreciates fundamental democratic values, such as representative government, transparency and accountability; strives to maintain optimal levels of distributive justice within parameters of international integration; and does not hesitate to underwrite and safeguard a strategically-regulated but unrepressed free market economy.

In summary, whether they prefer to use 'developmental state', 'strong state', 'high stateness' or 'strategic-effective state' concepts, the common ground of all the counter critiques of neoliberal globalist orthodoxy is their acknowledgment of the state as an active and transformative power in the internationalization of the economies in question. From this study's point of view, states' role in the transformation of finance capital is also vitally important and decisive.

In this study, following the main framework of Şenses and Öniş (2007), 'pro-active' state and 'reactive' state concepts are to be used in order to refer to the role of the states during the neoliberal globalization process. The 'pro-active' state mainly refers to the states that have 'relative autonomy' from the key domestic actors, especially from the business elite. They have three main characteristics, which are (1) the state's 'developmental and/or transformative abilities'; (2) the state's 'regulatory capacity'; and (3) the state's 'redistributive capacity' (Şenses and Öniş, 2007: 277-278).[6] In other words, the 'pro-active' states have the ability to transform the political economy structure of the country in line with the requirements of long-term goals and have the capacity to implement a comprehensive strategic framework. The 'reactive' states on the contrary are characterized by a much lower degree of 'state autonomy'[7] and fragmented economic and financial policies;

> … Reactive states tend to be more fragmented and enjoy a much lower degree of relative autonomy from key domestic constituencies such as the emerging industrialists. Hence, their ability to overcome sectional conflicts and concentrate their attention on longer-term strategic goals such as

[6] In their study, Şenses and Öniş (2007) build their arguments on Weiss' book *The Myth of the Powerless State*.

[7] 'State autonomy', in this context, is defined as the "ability of state to formulate and pursue goals that are not simply reflective of the demands or interests of social groups, classes or society" (Skocpol, 1985: 9). Moreover, state capacity, which is the inextricable part of 'state autonomy', is mainly derived from three sources: state's territorial integrity, financial means and bureaucratic state staffs (Skocpol, 1985: 15-18).

> developing internationally competitive export industries tend to be more limited. Moreover, reactive states tend to move closely with the dominant norms in policy behavior accepted in major centers of international decision making. Reactive state behavior by definition means going along with the acceptable line of policy thinking as opposed to deviating from such norms in certain critical respects (Şenses and Öniş, 2007: 255).

Regarding the transformation of finance capital, it is apt to underline that the 'reactive' states tend to follow the orthodox recipes of international financial institutions and regional power blocks without any critique and open up their markets "hurriedly without first putting into place an effective regulatory framework" (Stiglitz, 2000: 1075). Putting it another way, the liberalization and integration process is not placed within the context of a comprehensive political economy process under the guidance and active participation of state, neither the cooperation between state and business firms are established. Moreover, the changes in the 'reactive' states are mainly crisis-triggered (major economic and/or political crises) and external stimuli driven (like IMF, World Bank and/or other international actors). The 'pro-active' states, on the other hand, put importance on the financial regulation/surveillance mechanisms during gradual and controlled liberalization processes and concentrate on the establishment of productive links between financial sector and the production side of the economy before fully liberalizing their financial systems.

As illuminating examples of the former and latter categories, Spain and Turkey represent instructive cases in point. Although the political economy of these two states were depicting striking similarities at the beginning of 1970s (Tayfur, 1997), their ways started to diverge in early 1980s. On the one hand, in addition to the strongly institutionalized democracy, Spain stands out as the seventh largest economy in the world in purchasing power parity terms and has the world's leading industrial and financial giants[8] in telecommunications (Telefónica), in oil and natural gas (Repsol- YPF), in public utilities (Endesa, Iberdrola, Unión Fenosa) and in banking sector (BBVA and Grupo Santander) as well (Tayfur, 2003: 169-181; Tekinbaş, 2009; Chislett, 2003, 2008). On the other hand, Turkey deals with periodic financial crisis, unsustainable economic growth, in addition to the relatively uncompetitive finance capital in the country (Boratav, 2005; Kepenek and Yentürk,

[8] These companies are called as "national champions" in the literature, for details of Spain's "national champions" policy; see Chapter 3.

2007; Keyman and Öniş, 2008; Pamuk, 2008). The role of the Spanish and Turkish states, the established links between business groups and governments and the business groups' perception of integration into global economy played a decisive role in the process. In this regard, the aim of this study is to make a comparative political economy analysis between the transformation of the finance capital in Spain and Turkey and to pinpoint the diverging paths of international stature of these countries. Specifically, the role of state strategies, state intervention mechanisms in both countries and 'particular adjustment' methods to transform the finance capital during the period in question in Spanish and Turkish economies will be investigated within the context of International Political Economy (IPE) framework.

There are three main reasons to employ IPE perspective in this study. First, the transformation of finance capital cannot be regarded as a mere 'economic' issue and cannot be explained only with reference to the changing strategies of 'individual actors' in the marketplace. This implication is valid both in terms of national and systemic perspectives. At the national level, since "the financial system's role in mediating key government policies, the politics of regulatory reform of the sector cannot be captured from a strictly sectoral perspective" (Perez and Westrup, 2008: 2). In terms of systemic level, Cerny (quoted in Palan, 2009: 391) points out that finance has become "the infrastructure of the infrastructure" of global economy over the last three decades and turned out to be one of the determinants of new infrastructure of power relations in the world. On the way of integrating a country's finance capital into the global political economy structure and influencing the power balances,[9] the state's role in the process determines the results significantly. For example, in the post-Franco period, Spain successfully liberalized its financial system in line with the requirements of European Economic Community and democratized its domestic politics. However, opposite to the conventional economic theory, the liberalization did not pave the way for the abolition of banking oligopoly in the country. On the contrary, the privileged position of the oligopolistic 'Spanish

[9] Susan Strange (1988: 88), one of the leading British political economist, defines finance as one of the primary power structures in the global political economy by arguing that "the power to create credit implies the power to allow or to deny other people the possibility of spending today and paying back tomorrow, the power to let them exercise purchasing power and thus influence markets for production, and also the power to manage or mismanage the currency in which credit is denominated…"

banking armada' survived under different governments that have different ideological orientations. Moreover, the finance capital in Spain exposed important role in determining the direction of Spanish economy and foreign policy (Tekinbaş, 2009). The heterodox policies followed by subsequent governments have left imprints of the continuation of financial oligopoly in Spain. According to Etchemendy (2004: 623) "a set of illiberal and protectionist [state] policies are crucial to understanding the Spanish transformation." On the other hand, different state policies and different adjustment patterns followed in the Turkish case yielded different results during neoliberal adjustment period, although both countries started the process from a similar background in the 1970s.[10] Turkey's integration into the neoliberal globalization period was realized within the context of 'orthodox globalization recipes' of International Financial Institutions (Öniş and Aysan, 2000: 128-130). The capital account liberalization, in this context, was premature and under-institutionalized (Kazgan, 2002: 153-188; Rodrik, 1990; Öniş, 2003: 6-9). Once the capital inflows and outflows were allowed under bad macroeconomic fundamentals and lacked the necessary institutional checks and balances, Turkish economy in the last decade of the 20th century plunged into deadlocks for several times. This role of the state and the interaction between the 'state' and the 'market' inevitably transfers the issue into the realm of political economy.

Second, the transformation of finance capital reflects the domestic and international 'power shifts' since it results with the success of particular actors in economic, political and foreign policy spheres and with the decline of others on the other side of the coin. The economic and social actors' responses to the major economic and political transformations significantly affected the 'adjustment patterns' in Turkey and Spain in the post-1980 period. For example, while the Spanish economic elite strongly supported the democratization and economic conversion in the post-Franco period, the economic elite in Turkey dragged foot in the democratization and economic/financial transformation on the eve of the 1980s (Tayfur, 1997: 224-227; Keyman and Koyuncu, 2005: 113; Öniş, 2009: 207). Different reactions in both countries were mainly due to the distributional concerns and during this

[10] For an analysis of the similar geographical, historical, socio-economic and political backgrounds of Turkey and Spain; see Tayfur (1997: 177-239).

redistribution/restructuring period, the question of 'who-gets-what' turns out to be the foremost challenge. Since IPE is an area of inquiry that deals with "who gets what at the end of the day" (Strange, 1988: 230), the political implications and distributional consequences of the 'power shift' empowered by the financial transformation and the actors' reactions add another 'political' dimension to the analysis.

The 'power shift' in the interests of domestic political and economic actors, *i.e.*, change in domestic political economy structures also have foreign policy implications for the country in question (Tayfur, 2000; Tayfur, 2003: 231-236). This aspect paves the way to the third reason to employ an IPE perspective in this study. Accordingly, the changes in political economy priorities of domestic actors and changes in the formation of interest groups at home and abroad as a result of the transformation in finance capital, affect the international stature of the states. The new political and economic agenda of financial and industrial elites finds its repercussions on the foreign policy priorities of the relevant state. For example, it may be difficult to explain Spain's increasing foreign policy activism in the 1990s without reference to the further internationalization of Spanish finance capital. The same argument may be put forward regarding Turkey especialy in the post-2001 period. As a result, 'international' and/or 'foreign policy' dimensions become an important and indispensible component of the transformation of the finance capital.

In summary, the transformation of finance capital has important implications on the balance between 'state-market' and 'power-wealth' nexus. The change in the interests of domestic political and economic actors has significant repercussions in the foreign policy instruments and aims of the states. Due to the complex nature and consequences of the transformation of finance capital and its organic links with other spheres, one has to go beyond the conventional boundaries of economics, political science and foreign policy studies. Since IPE is a "true interdiscipline" as Lake (2006: 758) defines, it has the capacity to better shed light on this complex phenomenon. Accordingly, this study aims to investigate the Spanish and Turkish cases from a comparative IPE perspective. In order to specify the conceptual framework in a broader perspective, in this part of the chapter, two different approaches to the IPE will be discussed at first. Second, the approach utilized in this thesis and the reasons for choosing the latter one will be explained. Third, literature review on the role of state strategies over the liberalization of finance capital as well as previous studies regarding the issue will be revised and criticized in detail. The conclusion part will set out the methodology and the organization of the chapters.

1.1. The Political Economy of Finance Capital in Spain and Turkey

IPE came into existence as a distinct subject field in the 1970s mainly as a reflection of events, not ideas (Strange, 1995: 154). Notwithstanding it is a young discipline *vis-á-vis* other social sciences branches, a large body of literature has emerged in the field in a relatively short time period. In the classical sense, IPE can be defined as "the field of study that analyses the problems and questions arising from the parallel existence and dynamic interaction of 'state' and 'market' in the modern world" (Balaam and Veseth, 1996: 6). Here, the interaction between "state" and "market" is critical in the sense that state is regarded as the realm of collective action and decision, and market is the realm of individual actions and decisions. The parallel existence of these two realms creates a potential *tension* since they embrace different fundamental values. The fundamental values of states and markets, according to Balaam and Veseth (1996:7), differ in four main points. First of all, states put emphasize on power, whereas markets precede wealth. Secondly, the states regard the collective action and give priority to public interest; on the other hand, the actors in the market are individualistic and in the market place "no one negotiates with the public interest in mind." This fact creates the third consequence in the basic value difference: fairness vs. efficiency. While the states give priority to the fairness in the society, the markets deal with efficiency in order to "allocate the scarce resources properly." Hence the fourth ontological difference comes into existence: the sates are other-regarding and the markets are self-regarding entities. The unsurprising result is the potential tension between the two spheres of world affairs, because "states and markets embody different values, employ different means, and have different goals" (Balaam and Veseth, 1996: 9). On the other side of the coin, the complex nature of markets, especially the financial markets and the sea transformations in finance capital requires dynamic economic policy coordination, active support and particular design of state strategy. In other words, the 'pro-active' state strategies and state's role in economic transformation makes the state-market distinction somehow 'arbitrary' and necessitates a 'holistic' approach in understanding the 'social totality.' As it will be tried to show in the following chapters of this study, the crucial corporation between states and markets directly falls into the subject field of IPE.

Today, different schools of thought led to a range of competitive definitions and typologies regarding the basics of IPE (Tayfur, 2005: 183-216; Higgott, 1994: 156). Albeit the plethora of inter as well as intra 'heterodoxies' among different approaches (Murphy and Nelson, 2001: 393-412), by following Cohen's differentiation (2007, 2008), this study makes two broad categorization (schools of thought) regarding the study of IPE, which have different methodologies, different assumptions, different icons, different journals and different organizations on both sides of the Atlantic.[11] Their approach to the study of financial transformation also differs considerably. These two schools are orthodox/mainstream IPE and critical IPE.[12]

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[11] Here, 'school' is used in the loose sense of the term. The *Oxford English Dictionary* defines 'school' as "group of artists, philosophers, etc. sharing similar ideas, methods, or style." In a similar way, 'school of thought' is defined as "a particular way of thinking." In the strict sense of the term neither 'orthodox' nor 'critical' IPE uses same ideas, methods, or style. Yet, it is nevertheless possible to argue certain similarities that are useful as the 'broad guiding principles'. This study, in the final analysis, uses the concept in this context.

[12] The inadequacy of this categorization is criticized by different political economy scholars. For example, according to Ravenhill (2008: 26-27), the dichotomy between 'British' (critical) and 'American' (orthodox) IPE exaggerates the intra homogeneity of the schools and underestimates the inter homogeneity between the two schools. He argues that "typologies are most useful when they have minimal within-type variance and maximum between-type variation. The characteristics that distinguish the types have to be clearly specified if comparisons are to have any utility… The dichotomy drawn between 'American' and 'British' approaches to the study of IPE falls far short of these criteria" (Ravenhill, 2008: 26-27). In another study, Murphy (2009) criticizes Cohen for leaving the 'Left out' who contributed significantly to the consolidation of the subject field like Immanuel Wallerstein, Stephen Gill, James Caporaso etc.

1.1.1. Orthodox/Mainstream IPE

Robert Cox (1995: 31-32) defines two kinds of theories according to their purposes, which are the 'problem solving theory' and the 'critical theory'. The 'problem solving theory', according to Cox (1995: 32), takes the world as given and provides guidance to fix the specific problems within this existing order. The other type is 'critical theory' that deals with the historical origins of the existing order and investigates the dynamics of landscape transformations. In other words, while the first one methodologically and normatively prioritizes *status quo*; the latter encourages the questions about *structural transformation*. According to Cox's classification, it can be argued that orthodox/mainstream IPE due to the over emphasis on 'order' and 'stability', shows a problem solving characteristic from the very beginning of its emergence.[13]

From epistemological point of view, orthodox/mainstream IPE resembles the methodology and theory of neoclassical economics and positivist analysis (Cohen, 2008: 41-42; Strange, 1995: 167-168). In definition, orthodox/mainstream IPE defines relatively a narrow space for the study of IPE in the sense that many studies in the field are "applying the tools of economic analysis to the study of public policy" (Cohen, 2008: 37). The standard epistemology of the school is methodological individualism (*i.e.*, rational choice models) that assumes the full rationality of individuals. Rational choice driven orthodox/mainstream IPE heavily relies on formal modeling, perceives the discipline as a relatively narrow field in principle, and concentrates primarily on the management of inter-state relations in an anarchic international political economy environment.[14] The *actors* and the *issues*, rather than the *structures* and *structural transformations,* is analyzed by this school.

The testable hypothesis and empirical analysis have turned out to be the standard approach of orthodox/mainstream IPE over the years.[15] Since formal modeling

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[13] For a crystal clear example of the problem solving characteristics of mainstream IPE and over emphasis on 'order'; see Spero and Hart (2003).

[14] For a typical case; see Keohane (1984).

[15] For example, the percentage of econometrics in the IPE articles published in *International Organization (IO)*, the leading journal of orthodox IPE, have increased gradually over the years. The percen-

dominates the subject field, the mainstream studies of orthodox/mainstream IPE scholars concentrate on the 'sophisticated', yet 'particularistic' analysis of the events, as a result of which 'the social whole' is left behind the scope of inquiry. The orthodox/mainstream IPE's approach to the study of finance, in this regard, is also particularistic and despite its "sophistication and methodological rigor... [It] fails to appreciate" the transformation of finance capital and the role of the state over the process (Palan, 2009: 389).

For quite a long period, orthodox approaches have dominated the study of IPE. The journal *International Organization* (IO) in which the representatives published their articles established a standard regarding the methodology and contours of the subject-field. However, as the time passes, more scholars from a wide range of perspectives started to question the rigidities of the orthodox IPE's assumptions and its narrow IPE definition. As a result, critical IPE emerged as a severe critic of mainstream approaches, especially after the mid-1980s.

1.1.2. Critical IPE

Critical IPE is more inclusive and critical in its approach to the subject field than the orthodox IPE. It takes the non-state actors into consideration, and does not give priority only to state-state relations. Not *issues* but *structures* are studied within the context of 'historical relativism'. It defines the power relations in a broader sense than the conventional approaches, by putting emphasis on the ideas, consent and institutions (Cox, 1983). Most important of all, critical IPE rejects the positivist object/subject dichotomy and fact/value separation (Cohen, 2008).

As one scholar describes, when its current form is taken into consideration, IPE is a "notoriously diverse field of study" (Philips, 2005: 69). This is even clearer when one tries to identify characteristics of the critical IPE.[16] As Cohen (2007: 207)

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tage of articles that use econometrics appeared in IO during 1975-1979 was 9.4. It increased to 26% during 1995-1999 and skyrocketed to 47.5% during 2000-2004 (Cohen, 2008: 42).

[16] For a critique of this classification; see Ravenhill (2008: 18-29).

congruently puts "the origins of the British [critical] IPE could not have been more different." Nevertheless, it is possible to define common grounds that unify critical IPE scholars against the conventional wisdom in IPE. In the following part, these common grounds will be determined under two sub-titles.

The Ontological and Epistemological Arguments

The ontological and epistemological inadequacies of the orthodox school have become the fundamental points that critical IPE scholars have unified against.[17] In terms of ontology, the orthodox/mainstream school strictly commits itself to the state-centric analysis, and tends to neglect other societal actors as it is depicted above. However, the critical IPE regards the state as just one of the actors in the complex web of interactions. As Murphy and Tooze (1991) claims merely because it is possible to claim that the state is still the 'fundamental unit of authority' does not mean that state action will elucidate change: it does not even imply that the behavior of other actors will elucidate less. In terms of epistemology, the orthodox school relies on the positivist assumptions and employs theory for the sake of revealing universal truth. On the other hand, critical IPE tends to prioritize more *institutional* and *historical* approaches which in turn make it less 'formal in theory' and more interpretive and comprehensive in practice (Cox, 1995).

According to the critical IPE scholars, orthodox IPE is based on 'a particular mode of production of IPE knowledge' that produces and re-produces specific sets of paradigm. Analyzing superficially, different paradigms in IPE as once Gilpin (1987) popularized as Liberalism, Marxism and Realism, seem to be contesting. However, in reality, they are all produced and disseminated within the same context of a larger theory of knowledge production (Craig and Murphy, 1991: 13-14). This context, which enables these paradigms to converge each other, is the 19th century's 'scientific principles' of positivism and empiricism (Cohen, 2007: 200). Orthodox

[17] Ontology is about investigating reality, in social sciences a term used for studying the world in which we are living. Epistemology, on the other hand, refers to the "methods and grounds of knowing."

IPE is strictly based on these principles and regards the knowledge production process as purely 'intellectual' in the sense that it does not take into account the possible interaction between the subject and object. In other words, orthodox IPE tends to assume as if the intellectual (or scholar) is immune from the material structure and political conjuncture (Cox, 1981). This ontology, according to the critical IPE Scholars, produces a *culture of knowledge production* that pave the way for similar other studies and theories and/or marginalize alternative approaches if cannot incorporate them into mainstream thought (Murphy and Tooze, 1991: 14).

By taking these points into consideration, the critical IPE puts special emphasis on the knowledge production processes and underscores the close relationship between power and knowledge. It does not make a distinction between facts and values, and it takes the dynamic interaction between agent and structure into consideration (Cohen, 2007, 2008).

The Definition and Nature of the IPE

Another characteristic of the critical IPE school is its inclusive approach to social sciences. It can be said that the critical IPE is more receptive than the orthodox approaches in establishing links with other social sciences. Instead of regarding the IPE as a sub-field of IR, and defining it as the "politics of international economic relations", critical IPE looks at the picture from a broader perspective, and encourages the combination of different academic disciplines by erasing the borders that separate one from the other. One of the flagships of them, Susan Strange (1994: 40) puts it as follows;

> The whole point of studying international political economy rather than international relations is to extend more widely the conventional limits of the study of politics, and the conventional concepts of who engages in politics, and of how and by whom power is exercised to influence outcomes. Far from being a sub-discipline of international relations, IPE should claim that International Relations is a sub-discipline of IPE.

In this context, the IPE should include all of the actors like non-government organizations, firms, lobby groups and even the mafia (Strange, 1991: 13-14; Strange, 2006). The critical IPE argues that orthodox IPE's state-centric approach just concentrates on the rational behaviors of the sovereign states, and ignores the other societal actors' role in explaining the transformation. As Gills and Palan argue, "there needs to be an analytical shift away from analyzing state-nations toward analyzing the governing processes of state and societal transformation" (quoted in Gamble, 1995: 523). According to many representatives of critical IPE school, these processes are occurring at global scale and at many different levels, i.e. sub-state, inter-state, and above-state.[18]

In its attempt to develop a comparative political economy analysis of the transformation of finance capital in Spain and Turkey with particular reference to the role of the state strategies over the process, the framework of critical IPE will be tried to utilize in this study. As a matter of fact, there are mainly three reasons for employing this perspective.

The first reason is about the *historical* aspect of the issue. As mentioned in the previous pages, the critical IPE puts special importance on the historical origins of the transformations. The very ontology of this approach enables the researchers to pay particular emphasis on the evolution of systems and/or particular aspects of the system. As Skocpol (1985: 8) underlines the "consideration of the various ways in which state [and market] structures and actions are conditioned by historically changing transnational contexts" is *sine qua non* for understanding the dynamics of the existing system; therefore, the historical and structural origins of the emergence and consolidation of the 'social totality' must be investigated profoundly. The transformation of finance capital and state's role over the process in Spain and Turkey is an illuminating case in this sense. Both countries' historical positions in world political economy and the particular stature of finance capital are too important to be neglected in this process. Although, studying the historical roots of finance capital in Spain and Turkey is not the primary aim of this study, it aims to

[18] In a similar vein, the critical IPE scholars strongly reject the hierarchy of issues in IPE. According to this understanding, the distinction between 'high politics' and 'low politics' and the prioritization of some issues like trade, limit the horizons of the IPE.

take the historical, geographical and structural heritages of the existing order into consideration. The orthodox/mainstream IPE, partially due to its emphasis on the neoclassical framework, does not pay attention to the historical development and geographical structure of the economy. As Krugman (1991) underlines, the neoclassic approach "lacks both a temporal and spatial dimension and assumes that economic activities take place in an abstract universe devoid of history and geography." As a result of its reliance on neoclassic methodology, orthodox/mainstream IPE is prone to study finance capital within the context of static *taken for granted* approach and ignores the historical aspect of the subject. In this sense, for instance, it does not seem possible to explain the preservation of the privileged position of finance capital in Spain despite the liberal transformation under the auspices of successive governments from socialist and conservative background (Tekinbaş, 2009) with a narrow IPE perspective due to the fact that "the dominant position of private banks in the Spanish economy is *historically* the result of a series of legislative measures which had explicitly the intention... of encouraging the promotion of industrial projects by a progressively concentrated and centralized bank capital" (Holman, 1996: 160).

The second reason, *methodological* aspect, is closely related to the quotation of Krugman in the previous paragraph. Once the orthodox IPE lacks the historical and geographical dynamics of the existing links between state, financial elite and industrial elites, the financial markets are studied within the narrow boundaries of formal modeling and econometric analysis. This methodologically individualistic perspective, as a consequence, does not enable one to develop a comprehensive approach in discovering the vital interaction between the state and financial elites on the one hand; and its repercussions on the political economy of the country's international stature, on the other. The critical IPE's 'holistic' approach, however, opens a methodological window to capture the dynamic and complex interaction between 'state/market' or 'power/wealth' nexus by placing the finance capital into the epicenter of 'social totality'. In other words, the political dimensions of the issue is plugged into the analysis and as Strange underlines "a series of political decisions and equally important, non-decisions that have created spaces of possibilities that were taken advantage of by well-positioned vested interests" are studied as endogenous factors (quoted in Palan, 2009: 391). The 'holistic' approach creates new rooms to investigate the role of not only the state, but also the non-state actors in the process. In this regard, the role of the civil society organizations, and especially business groups and their 'vested interests' are also taken into consideration in this perspective.[19] These actors, in fact, shape the destiny of economic policies of states (and the position of finance capital as well). For example, it may not be possible to explain the Ecevit government's negative attitudes towards European Economic Community in the late 1970s without paying attention to the anti-European sentiments of Turkish financial and industrial groups, especially the Turkish Industrialists' and Businessmen's Association (hereinafter, TÜSİAD) (Eralp, 1997: 93-99). On the other side of the coin, the particular state strategies also have considerable impact upon the role of non-state actors and their level/type of interaction with each other even in the era of neoliberal globalization. Without successful 'conversion plans' of Spanish state, for example, Spanish private sectors' internationalization would not have been the case (Closa and Heywood, 2004: Chapter 7). Having taken this two-dimensional interaction into consideration, this study is an attempt to develop a 'holistic' comparative account by trying to put the

[19] In line with the developments in world political economy, the limited analytical capability of state-centric approach has started to be criticized. Accordingly, alternative approaches employed new research methods to include other societal actors like firms and NGOs into the state-market interaction. One of the leading IPE scholars who helped to enlarge the narrow analytical scope of state-centric analysis, in this regard, is Susan Strange. In one of her articles, Strange (1991: 13-14) challenged conventional wisdom of diplomacy in world affairs on the ground that relations between states are regarded as if they are being conducted in one dimensional (state-state relations) and with a limited number of actors (state representatives). Strange went on to argue that this one-sided approach to world political economy ignores the 'dynamic' nature of state-market nexus and regards the interaction as 'mechanic' and 'static'. In fact, according to the British scholar, significant structural transformations occurred within the inter-state system and regarding the market dynamics after the second half of the 20th century. One of the most striking developments, in this context, was the emergence of firms (multinational, supranational, international, etc.) as important actors in world diplomacy. The firms have increased their power after 1970s, and they dilated their contacts towards the ex-Communist countries especially thanks to the capitalist transformation took part after the collapse of USSR. Today, the multinational firms have supply chains that go beyond the national boundaries and they have customer portfolios in almost every corner of the world. Parallel to the increase in their economic power, they also started to gain political clout in the sense that their capabilities in shaping the decisions taken by politicians have turned out to be an important field of inquiry. As a result of all these developments, the classical one dimensional state-state diplomacy have become inadequate in understanding the complex nature of 'who-gets-what' game in the contemporary IPE. Instead, two new forms of diplomacy have emerged in the world political economy which Strange named as 'state-firm' and 'firm-firm' diplomacies.

transformation of finance capital as the part and parcel of the overall political economy developments in Spain and Turkey.

The last reason is about the *normative* aspect of the issue. As underlined above, the central questions within the IPE discipline are 'who-gets-what' questions. In other words, the critical IPE scholars always question the type and nature of the relationships and start the investigation by asking the question of *Qui Bono* (for whose good?). For example, Strange (1991: 48) underscores that the good questions in IPE should be the followings: "Who is the hammer and who is the anvil? And whose ox gets gored? Who carries the risks? Who gets the opportunities for greater wealth, more freedom, more security, and more justice?"[20] Having kept in mind that the transformation of finance capital is one of central issues that determine 'who-gets-what' in the Spanish and Turkish political economy, this study aims to scrutinize the process from a normative perspective as well.

Not only has the contemporary political economy of Spain and Turkey during the post-war period, but also the history of two countries starting from the medieval ages connotes striking similarities. According to prominent Turkish historian Halil İnalcık (2009: 241), "the Turkish and Spanish histories show an amazing parallelism with each other." For example, both the Spanish and Ottoman-Turkish empires founded around the same centuries and became rivals over the control of Mediterranean sub-system. Moreover, their hegemonic rivalry mostly determined the destiny of the empires in question.[21] Albeit this parallelism, it can be confidently argued that, there is not adequate literature on the historical comparative study of Turkish and Spanish political economy.

[20] Not surprisingly, as a consequence, the critical IPE school scholars put special emphasis on the "value" concept. As they reject many other dichotomies, they also reject the dispensability of the scholarship and values. In this regard, they also aim to reveal the values embedded in the orthodox theory building. For example, they help us to direct our attention to the value loaded nature of regime discussions and to recognize the orthodox approaches' precedence of 'order' *vis-á-vis* 'justice'. Moreover, some research programs in the critical IPE school reminds us that the very establishment of the markets is the result of political construction, which implicitly refers to the role of values in the fundamentals of the markets via political decisions. For example, see Polanyi (2001).

[21] For details on the issue, see İnalcık (2009: 241-245).

If one scrutinizes the post-war period, the two countries which are located at the opposite sides of the Mediterranean, reflects considerable commonalities. Due to the particular geographical specialties, similar positioning in the stratification of world political economy and the cultural-social characteristics, Spain and Turkey is studied as the part of the same sub-system called 'Southern Europe' by some scholars (Featherstone and Kazamias, 2009; Sapelli, 1995: 5-20). The transformation of the Southern European countries from authoritarian rule to democracy and the changing political economy structures of the states in question are widely scrutinized in the literature (Schmitter, 1986; Arrighi, 1985). Accordingly, the number of books on different political economy aspects of Spain and Turkey has proliferated over the course of time (McLaren, 2008).

Having considered Spain's successful integration into European economic structures in the 1980s and rise of Spanish multinational in the late-1990s, many studies concentrate on the different aspects of Spanish transformation. In one of the chapters of their book, Closa and Heywood (2004: Chapter 7), investigate the comprehensive transformation of Spanish economy "from being a traditional country in the interventionist and statist mould... [towards] liberalization on a more Anglo-Saxon model" within a wider context of 'Europeanization.' They claim that the Spanish economy, today, "even took the lead in some aspects of Anglo-Saxon model" (Closa and Heywood, 2004: 172). Tortella (2000), Lieberman (1995) and Salmon (1991) explain the transformation of Spanish economy and finance capital from a wider and historical perspective, starting from 19th century up until 2000s. Similarly, a prolific writer on the 'internationalization of Spanish economy', Chislett (2003, 2008) investigates the development and integration of the Spanish economy to the world with detailed and stylized statistics. Yet, almost all of the abovementioned studies are mainly descriptive in nature and do not explicitly concentrate on the role of Spanish state and the changing power relations between business, financial and state elites over the liberalization process.[22] In one of the comprehensive studies, in this sense,

[22] Nevertheless, Tortella (2000: 405-407) investigate the oligopolistic structure of Spanish finance capital and reserves a chapter (chapter 15) on the changing role of the state. However, he does not go into detailed analysis in showing the continuities and ruptures between the state apparatus and financial, industrial elite.

Tayfur (2003) analyses the upward mobilization of Spain from 1945 up to early-2000s within the context of world-systems approach. He demonstrates the close circle among the state, finance capital and church during the Franco period (Tayfur, 2003: 141-154). Moreover, Tayfur reveals the continuation of intimate relations between state and finance capital and pinpoints the effects of 'pro-active' state strategies in establishing effective public policy networks to create 'national champions' during the neoliberal globalization period. In his book, Guillén (2005) reveals the impressing rise of Spanish multinationals starting from the late 1990s and determines the specific reasons underpinning their success at the international fora.[23] In his comprehensive study, Guillén (2005) underlines the role of Spanish state in creating 'national champions' and successfully reveals the foreign policy consequences of the expansion of Spanish banking and industrial companies. The most important points in terms of this thesis' perspective are the role of the state during the internationalization of Spanish finance capital and state strategies over the period. In this regard, Etchemendy (2004: 624) felicitously underlines the "state's reorganization of the economy" and defines the transformation of the Spanish finance capital as "protectionist liberalization." Likewise, Tekinbaş (2009) explicates the liberalization of Spanish financial system and scrutinizes the connections between finance capital and Spanish foreign policy.

The political economy of finance capital transformation in Turkey also aroused the attention of many scholars during the last decades, similar to the Spanish case. Since Turkey followed the orthodox way of integrating itself into the neoliberal globalization period starting from early 1980s (Akyüz, 1990), it became a fruitful case study for many researchers and international organizations (Yalman, 2009; Emrence, 2008; Rodrik and Arıcanlı, 1990). The breathtaking financial liberalization wave in the 1980s and the subsequent financial crises during the 1990s and early 2000s motivated the researchers to concentrate on state strategies and to compare Turkish experience with those of the others. Some particular studies shed light on the role of the state in the Turkish economy. Accordingly, Buğra (1994a, 1994b) investigates the role of Turkish state as an 'ambiguity creator' in Turkish economy

[23] The rise of Spanish banking sector and the leading Spanish bank, *Banco Santander,* is examined in Guillén and Tschoegl (2008).

and reveals the fragile and clientelistic relationship between the state and finance capital in Turkey. In many of his studies, Öniş (1998, 2003, 2004) portrays a political economy perspective and underlines the semiperipheral integration of Turkish finance capital into the world political economy structures without proper regulatory state mechanisms. Cizre and Yeldan (2005: 391) in their study reveal how the disengagement of "financial sector from financing real production activities" paved the way to the unsustainable development patterns during 1990s. All in all, the 'reactive characteristics' of Turkish state and the fragile and clientelistic state-banking-business relationship which brought the Turkish economy to the brink of collapse is discussed in many other studies (Kepenek and Yentürk, 2007; Akyüz and Boratav, 2003; Yeldan, 2006a, 2006b, 2007; Öniş and Rubin, 2003; Boratav, 2005; Özatay and Sak, 2002; Özkan, 2005).

Since the 2001 financial crisis triggered a large-scale change in the Turkish finance capital and state's role in the economy, the post-2001 period is an episode in Turkish economy to be investigated separately in the literature (Keyman and Koyuncu, 2005; Keyman and Öniş, 2007). After the crisis, the state's regulatory role in the economy increased considerably (Öniş and Bakır, 2010) and "the mode of regulation of the state-society relations" overhauled deeply (Keyman and Koyuncu, 2005: 105). The restructuring of the finance capital occupies the centre-piece of this reshuffling process. A broad and strong consensus among the different parts of the society emerged in Turkey and people understood very well that the problem regarding the economy was not a simple 'liquidity shortage'; instead, there were very deep-seated structural problems in the financial and real pillars of the economy. This clear fact and broad understanding paved the way for 'radical reforms' in the post-crisis episode. Banking reform in Turkey is an important part of the abovementioned reshuffling. Gültekin-Karakaş (2009a, 2009b), for example argues that banking reform in Turkey is the central aspect of comprehensive political economy transformation of finance capital as a result of which particular holdings encouraged by the state to survive and consolidate their position on the way of integrating Turkey to global economy, while the uncompetitive ones deliberately allowed bankrupting. The 'new regulatory role' of the state and its changing relations with finance capital is also succinctly explored (Bakır, 2007; Gültekin-Karakaş, 2009b).

Moreover, some other scholars, such as Kirişçi (2009), study the new Turkish political economy with its foreign policy implications with the conceptual framework of 'trading state' arguments. Accordingly he argues that "the literature has not paid adequate attention to the role of economic factors shaping Turkish foreign policy as we approach the end of the first decade of the new century. He then goes on to "explore the impact of economic considerations on Turkish foreign policy" (Kirişçi, 2009: 29).

Despite all the existing literature cited above, it is, however, possible to argue that the comparative analysis of the transformation of finance capital in Spain and Turkey in the last three decades and the role of state in this process is not adequately studied. Having acknowledged the existing gap and taking the stock of the ample literature on Turkish and Spanish cases, this thesis aims to make a preliminary investigation from finance capital point of view, and shed more light on the role and consequences of particular state strategies during the neoliberal globalization period in comparative perspective.

1.2. Methodology

This study uses the case-study methodology in view of the fact that "case studies are the preferred strategy when 'how' and 'why' questions are being posed, when the investigator has little control over events [and] when the focus is on a contemporary phenomenon within some real-life context" (Yin, 2003: 1). Due to the fact that the main aim of this thesis is to search for answers 'how' Turkish and Spanish finance capital transformed over the last three decades and 'why' the political economy of Spain and Turkey differed considerably that was hitherto similar, the case-study methodology fits well for searching answers to the research question.

Spanish and Turkish cases in this study are proposed to be explanatory, aimed at making some 'analytical generalizations' to expand and generalize discussion in order to test the results of particular state strategies. Finally, multiple-case design (two cases) is chosen since cross-case conclusions separately arising from the study will be more powerful than a single case alone.

In this study, both qualitative and quantitative methods are used for a better understanding of the transformation of finance capital in Turkey and Spain in comparative perspective. In terms of quantitative methods, the official data released by the relevant institutions of both states, the EU's official statistics institution, Eurostat, the IMF, and the Economist Intelligent Unit (EIU) are used throughout the chapters. In terms of qualitative methods, the books, articles, newspapers and country reports are examined. Moreover, elite interviews are conducted with the Spanish and Turkish scholars, bureaucrats and Spanish diplomats in Turkey. It is fair, in the final analysis to argue that, the present thesis relies more on the qualitative methods, due to the fact that "qualitative researchers speak a language of 'cases and contexts.'" The qualitative approaches also put emphasis on the detailed examination of cases that come into existence within the context of social life (Neuman, 2006: 151). Since this study aims to portray a 'detailed examination' of two 'cases' (Spain and Turkey) in a specific 'context' of world political economy (neoliberal globalization period), it naturally rests mostly on the qualitative methods.

1.3. Organization of Chapters

The present study is organized under four chapters, introduction and conclusion. The second and third chapters deal with the Spanish case and the subsequent two chapters analyze the Turkish case. In the second chapter, the emergence of 'pro-active' Spanish state is to be investigated between the years 1975 and 1996. The chapter is divided into three parts. In the first part, the position of Spanish finance capital is analyzed during the Franco period. In the second part, the transformation of finance capital is investigated between 1975 and 1996 with special reference to the macroeconomic policies of PSOE governments. The final part of the chapter is devoted to the closer examination of the emergence of a 'pro-active' Spanish state in guiding and transforming Spanish finance capital in the integration process of neoliberal globalization and European Economic Community. The chapter argues that the Spanish state demonstrated the early characteristics of 'pro-active' states in this process.

The third chapter analyses the internationalization of Spanish finance capital between 1996 and 2009 within three parts. In the first part, the major economic policies of Aznar and Zapatero governments are discussed, respectively. In the second part, the rise of Spanish finance capital as multinationals in the Latin American and European markets are considered in detail. The final part is devoted to the analysis of particular strategies pursued by the Spanish state in creating 'national champions' and promoting these companies abroad. The chapter argues that Spanish state gained the basics of 'pro-active' characteristics, albeit there remained certain pitfalls.

The fourth and fifth chapters are devoted to the transformation of finance capital in Turkey between 1980 and 2009 and the role of state policies in this period. In this regard, in the fourth chapter, the 1980-2001 period is dissected. The chapter is divided into three parts. In the first part, the *étatiste* development planning era in Turkey (1960-1980) is discussed with special reference to the emergence of a particular type of finance capital and state-business structure. In the second part, the crisis of development planning preceded the comprehensive liberalization of Turkish economy between 1980 and 2001 is revealed in detail. In this part the 'reactive' state policies and Turkey's peripheral integration into the neoliberal globalization is discussed. In the final part of the fourth chapter, the consequences of 'reactive' state policies in terms of finance capital and state-society relations in Turkey are considered. The chapter argues that the Turkish state demonstrated 'reactive' nature in all characteristics of the term in the literature.

The fifth chapter is devoted to the transformation of Turkish finance capital and changing nature of the state in the economy and society. In this context, in the first part of the chapter, the most serious economic crisis of modern Turkey, namely February 2001 crisis, is to be analyzed in detail and the changing economic policies in the aftermath is scrutinized with special emphasis on the AKP era (2002-2009). In the second part, how the transformation in Turkish economic management along with the changes in world political economy, affected the Turkish finance capital in particular and state-business relations in general is to be questioned. The final part of the chapter examines the contours of an emerging ‘pro-active’ state in Turkey. The chapter argues that though landslide improvements achieved in the post-2001 Turkish political economy, the Turkish state at most shows the characteristics of a ‘regulatory’ state, a sub-title of ‘pro-active’ state discussions.

The conclusion of the study is reserved to make a comparative political economy analysis of Turkish and Spanish cases and draws some major conclusions for ‘pro-active’ state discussions in the literature.

CHAPTER 2

POLITICAL ECONOMY OF THE FINANCIAL TRANSFORMATION IN SPAIN (1975-1996)

This chapter analyses the transformation of Spanish finance capital during the 1975-1996 period with particular reference to the changing role of Spanish state in the process. Yet, in order to understand the privileged position of Spanish finance capital and to shed more light on the intimate relations among financial circles, industrial elites and state bureaucrats, the overall political economy of Franco regime (1940-1975) will be assessed briefly in historical perspective.

As North (1990: vii) felicitously underlines, “history matters”;

> It matters not just because we can learn from the past, but the present and the future are connected by the continuity of a society’s institutions. Today’s and tomorrow’s choices are shaped by the past. And the present can only be made intelligible as a story of institutional evolution. Integrating institutions into economic theory and economic history is an essential step in improving that theory and history.

Having taken the role of the history on the present shape of finance capital and state relations into consideration, the chapter first assesses the political economy of the Franco regime in brief. In the second part, the transformation and upward mobilization of Spanish finance capital between 1975 (a year in which Spain abandoned the dictatorship in the way of full scale democratization and liberalization) and 1996 (a year that Spanish finance capital started to appear as the ‘new conquistadors’ in the international fora) will be scrutinized. The Spanish state with its pro-active and/or reactive characteristics will be at the epicenter of the entire chapter.

2.1. Spanish Finance Capital and Franco Regime (1940-1975): A Privileged Relationship

This part of the chapter is composed of two sub-periods. In the first period (1940-1959), Franco's *absolutist regime* and his *autarkic* economic policies will be investigated. In this period, the Spanish economy followed a state-directed and inward-oriented industrialization policy with an aim of making Spain a self-sufficient country *vis-à-vis* the international actors. The finance capital, in the very same period, was suppressed by means of strict price and quantity controls, credit restriction mechanisms, tariff protectionism in front of imports and foreign direct investment as well (Salmon, 1991: 1-3).

In the second period, the first comprehensive restructuring attempts of Spanish economy with *Stabilization Plan* and afterwards (1959-1975) will be analyzed. In this period, the Spanish economy started to be liberalized after relaxing the controls restricting the foreign direct investment and external trade. The banking and credit system of the country also switched to the pathway of gradual liberalization mainly as a response to the external and internal economic disequilibria created by the autarkic policies during 1940-59 period (Lieberman, 1995: 2) as well as due to the overwhelming suppression of the US hegemony to integrate Spain into the newly established capitalist world economic order (Tayfur, 2003: 147-148).

Throughout the first part, the state's changing role in the economy and the 'privileged' characteristics of the relationship between finance-capital and state apparatus will be surmounted briefly.

2.1.1. Dictator Franco and Autarkic Spain (1940-1959)

If the political economy of Spain is analyzed during the first two decades of Franco regime, it becomes apparent that two basic characteristics shaped the economic structure of the country. First one of them is the heavily autarkic policies accompanied by reactive characteristics of Franco regime (or Spanish state) and the second one is the close circle among state, finance-capital, industry and (even the church).

Immediately after the Second World War, Spanish state pursued a recalcitrant autarkic self-sufficiency policy. Both the internal and external factors of the time motivated Spain to pursue *dirigisme.* In terms of internal factors, Franco regime developed an unshakable belief in the virtues of national economic and military self-sufficiency. Accordingly, the policy-making elite justified the results of protectionist economic policies in terms of 'political ideal' instead of economic criteria. Carr and Fusi (1979: 51) underline this point as follows;

> What distinguished Spanish economic policy from that of other Western European states was that state *dirigisme* and autarky were seen as an ideal and *permanent* solution, not only as a response to the post-war crisis. The economists of the regime did not seek to justify autarky in economic terms, as head the protectionists in the nineteenth century. It was presented and defended as a political ideal; the recipe for a stable society and a suitable policy for an 'imperial military state.'

Yet, the regime's belief in self-sufficiency policies was not only driven by the internal factors. Taking the external factors into consideration it was more of a necessity for Spain than a choice to implement autarkic policies in the sense that Spain's main economic partners, Western European states, turned their backs to Madrid on the ground of the Franco regime's dictatorship characteristics. Accordingly, the European states challenged Spain's integration into European cooperation mechanisms (Hanley and Loughlin, 2006: 3). For example, Francoist Spain was excluded from the Marshall Plan due to the heavy resistance of the major European powers.

In this period, there were five major economic instruments to pursue autarkic policies (Tayfur, 2003: 141). The first one was the system of *Syndical Organization*, which was designed to suppress the labor and control wages. In fact, all kind of political organizations including the political parties and independent labor unions were banned by Franco regime (Lieberman, 1995: 19). The second autarkic policy instrument was the establishment of a large state industrial company, namely National Institute of Industry (*Instituto Nacional de Industria*, INI). INI established in 1941 with an aim of overcoming industrial stagnation and backwardness of private sector by creating a public company to invest in different economic areas.[24] The philosophy of INI was to "produce at whatever price" (Tortella, 2000: 318).

> The basic idea behind the creation of INI was that Spanish industrialization was an utmost priority and had to be achieved whatever the price. The private sector had proved incapable of achieving industrialization because of a lack of a 'spirit of initiative', and perhaps because of a mean delight in profit combined with poor capacity to achieve it.

The INI was an initiative directly inspired by Italian fascist leader Benito Mussolini's *Istituto per la Ricostruzione Industriale*, and it acted as a 'huge holding company,' head of which was privileged to become directly responsible only to the President of the Government (Lieberman, 1995: 31). INI invested in prioritized sectors and participated in the already existing companies which were seemed as vital for the industrialization of Spain. These sectors were energy (petroleum and electricity, under large companies like Calvo Sotelo, REPESA, ENDESA, ENHER); automobile (such as Pegaso-ENASA and SEAT); mining (Adaro and Fosfatos de Bucra) ship building (the Bazán Company and Astilleroz de Cádiz) and transportation (Iberia, Aviaco, Elcano). As a result of these investments, INI had become the dominant actor in Spanish finance capital in relatively short period of time. In addition to these state-created industries, INI also acquired portfolios of the well established private industrial firms and banking corporations (Lieberman, 1995: 31-32).

The third and fourth instruments for autarkic policies were the licensing of investments in industrial sector and limited opportunity for foreign direct investment. According to the licensing arrangements, only the projects approved by government were allowed to come into existence. This procedure was put into force in order to protect the incumbent firms *vis-à-vis* the internal and external competition (Tayfur, 2003: 142). Moreover, the privileged domestic firms were also protected from external competition by the state thanks to the hostile attitude towards foreign direct

[24] INI was established by a law of 25 September 1941, in order to "propel and finance, in the service of the nation, the creation and reappearance of our industries, especially those which will have as principal end the solution of the problems imposed by the needs of defense of the nation or which will direct themselves to the development of our economic autarky, able to offer to Spanish saving a safe and attractive investment."

investment. Due to these strict autarkic policies, the inefficient domestic firms gained an arbitrary and unsustainable competitive advantage, which in turn institutionalized a *clientelistic* economic culture in which political rather than economic criteria became determining factors for success. The strong links with state circles, rather than efficiency measures, were the main factors in obtaining industrial investment permits (Tayfur: 2003: 142). Moreover, this privileged position of some incumbent industrial corporations was further underpinned by fifth instrument on financial and credit policy.

The fifth instrument was the external exchange controls and selective credit policies. With an aim of protecting the domestic producers, the Spanish bureaucrats implemented external controls through high tariff barriers, import quotas, single and multiple exchange mechanisms, etc. Apart from the external controls, the selective credit mechanisms and strict financial controls also shaped the structure of the finance capital in this period. Banking Law of 1946 subjected the Bank of Spain and Spanish financial system to the state intervention in the post-war period and state gained the right to control mergers & acquisitions, interest rate policy, solvency and liquidity ratios, and branch openings (Pueyo, 2007: 6). As a result, the state intervention to the Banking sector further strained with Banking Law of 1946. Accordingly five new measures were taken. First, state applied the very strict control of the “creation, fusion and the absorption of banks” (Tortella, 2000: 392). Second, state started to pressurize with more control mechanisms on the Bank of Spain than the 1931 Laws.[25] Third, Spanish Institute for Foreign Currency (*Instituto Español de Moneda Exranjera*), which became responsible from all kind of international monetary relations, was created and subjected to the Ministry of Commerce. Fourth, the Office of Banking and Stock Exchange Control (*Dirección General de Banca y Bolsa*) was created in order to supervise the banking sector in Spain. Finally, the Treasury was further equipped in deciding over the interest rates policies (Tortella, 2000: 392).

[25] In November 1931, a new banking law was put into force by the Spanish government. Accordingly, the government started to appoint three members of the Bank of Spain’s board of directors and would monopolize its influence in interest rate policy.

The other striking characteristic that shaped the political economy of the Franco period was the close circle among state, industry and financial elite (Tayfur, 2003: 155-156). The main aim of General Franco was to sustain the 'political stability' of his regime. Similar to other authoritarian regimes, Spanish case was also demarked with highly paternalistic, personal and clientelistic ties in state-market relations. The relationships among the three pillars shaped the political economy of the country. The first pillar was the state bureaucrats that appealed the privileged banking and industrial elites for the political support of the regime. On the second pillar, there were the industrial elite that were backed by the state through the selective credit policies and protectionist measures in return for their support for the 'political stability' of the regime. On the third pillar, financial elite occupied the central place and played a decisive role. In Lukauskas' (1994: 74) words;

> The powerful large banks had great bargaining power due to their central role in the economy and position as prominent backers of the regime, and they were able to obtain very favorable regulation… In addition, they were permitted to obtain strong leverage over industry by dominating industrial finance and holding stock in major firms.

Putting it another way, among this circle, the position of banking oligopoly was of vital importance to understand the overall structure of finance capital in Spain because it was "the glue that held monopolistic industries together." (Tortella, 2000: 326). Since the Franco regime heavily relied on the financial sector during the Civil War, he wanted to ensure banking oligopoly's support for the continuation of his regime. Therefore, he supported the continuation of limited competition in the financial sector.[26] The financial system in Spain passed through a rapid consolidation in just two decades and the number of banks fell from 250 in 1940 to 126 in 1967 (Lukauskas, 1994: 77). As a result, the five major banks (Bank of Bilbao, Bank of Vizcaya, Bank of Hispano-Americano, Espanol de Credito and Banco Central) dominated the economic system during the Franco regime. For example, in 1967, these banks were controlling interest in 48 other banks, almost 80% of total deposits

[26] The oligopolistic nature of Spanish financial system is a historical characteristic of Spanish political economy and goes well beyond the Franco era. For example, in 1923, the 'big six' banks among more than the 100 banks were controlling 40% of the paid-in capital and over half of the total deposits in the country. The directors of the six largest banks were also taking part on the board of directors of more than 274 industrial corporations, which approximately corresponds to 50% of the paid-in capital in overall Spanish corporations (Tekinbaş 2009: 16).

and their groups were made up 43% of the entire sector (Lukauskas, 1994: 77). More striking than that was the close links between finance and industry. The financial oligopoly obtained a controlling interest in 600 leading industrial firms either by directly investing in the shares of industrial firms or by lending operations and their representatives were on the board of directors of 2,321 private firms (Lukauskas, 1994: footnote 66; Tayfur, 2003: 143).[27]

In summary, during the first sub-period of Franco regime, the *autarkic* policies dominated the political economy of Spain. The state heavily intervened into the economy through external and internal control mechanisms. Moreover, the intimate relations among the state bureaucrats, financial and industrial elites hampered the competitiveness and efficiency of Spanish finance capital. Despite INI's gigantic industrialization efforts, in 1958, 45% of Spanish economy was using the pre-1920 equipment and 65% of the merchant fleet was constructed in pre-1939 period, according to a UNESCO report (Lieberman, 1995: 44). The costs of import-substitution policies, in addition, became visible in the form of inflationary pressures, chronic and intolerable balance of payments deficits and widespread product shortages and scarcity (Salmon, 1991: 3).

In terms of this thesis's conceptual framework, the Spanish state in this period seems to depict 'reactive' state characteristics at least due to two major reasons. First, the government could not succeed in transforming the economy into a competitive industrial one. On the contrary, the inefficient allocation of resources paved the way for further discouragement of competition. It is true that the organic links and 'synergy' were established among state, financial, and industrial elites; however, neither the long-term developmental goals, nor the proper channeling of the credits and subsidies into the productive industrial activities were materialized (Lukauskas, 1994: 74-75). Second, the state deliberately failed to improve its financial regulatory capacity in order not to intimidate the 'privileged' banking oligopoly in the country. Instead, the state apparatus was fully employed to suppress the alternative voices and potential competitors. In this sense Spanish state tended to be more fragmented and enjoyed a much lower degree of relative autonomy from the key domestic financial and

[27] 1968 figures.

industrial elites due to the political concerns of the regime. In this perspective, the Spanish state was 'strong' in controlling the social demands of the wider constituencies; yet it was 'weak' ('reactive') in overcoming the sectoral and class conflicts in the society mainly due to its inadequate 'redistributive capacities.' Regional inequality over this period, for example, was a good indicator to show the inadequate 'redistributive state capacities.' According to one study, the top three regions in Spain (the Basque country, Catalonia, and Madrid) amounted to almost 80% of the European average in 1959, whereas these figures fell below the 40% of European average in Andalusia, Castile, and Extremadura (Aceña and Ruiz, 2007: 42).

Inescapably, the Spanish economy plunged into a dead-lock due to Spanish government's reactive policies, lack of competitiveness and deep economic disequilibrium. As of the end of 1950s, Spain found itself in a cul-de-sac. Moreover, Franco started to realize that it would not anymore be possible to mobilize enough support for his regime by just relying on the close-circuit 'privileged partners.' It became a necessity for him to appoint more liberal bureaucrats to the managing cadres of Spanish economy. The new external actors, mainly the hegemonic US power, also forced the Franco regime to liberalize its economy in order to integrate Spanish market into the newly established capitalist system. Subsequently, the pro-liberalization *Opus Dei* technocrats took the initiative and implemented the *Stabilization Plan of 1959*, a plan that is regarded as one of the main turning points in Spain's gradual march towards liberalization (Tayfur, 2003: 147).

2.1.2. The Winds of Change and Spain's March towards Liberalization (1959-1975)

At the end of 1950s, the autarkic Spanish political economy was under a cross-fire. On the domestic fora, the growing inflationary pressures, chronic and intolerable balance of payments deficits, widespread product shortages and scarcity dictated a radical change in the *modus operandi* of the system. On the international fora, the US pressured hard to open up the Spanish economy and integrate it into the world markets. As a result of the double squeeze, the Spanish finance capital was forced to pass thorough significant transformation during 1959 and 1975. In fact, it is this transformation that prepared Spain to the democratic post-Franco period and economically underpinned the conditions of Spain's integration into European structures. In this context, in this part of the chapter, it will first be concentrated on the 'Spanish miracle' in economy in the 1960s and then the changing relations between finance capital and state will be assessed.

Although the first liberalization movements began in 1951, and the 1951-1959 period is called as "transition to economic liberalism" (Fontana and Nadal, 1976: 512), Spain's march towards liberalization in the exact sense started with the *National Stabilization Plan of 1959* (hereinafter, Stabilization Plan). The Plan was prepared by the pro-liberalization *Opus Dei* technocrats and ideologically and financially supported by International Financial Institutions and the US. Half of the $420 million foreign aid to the Plan was provided by the US and the other half by the IMF and OECD (Tayfur, 2003: 147). In fact, the US efforts starting from the early post-war period facilitated Spain's incorporation into the international financial and economic institutions.[28] Accordingly, Spain was incorporated into the OECD (Organization for European Economic Co-operation), IMF (International Monetary Fund) and WB (World Bank) in 1958. As a result, the interaction between Spanish bureaucrats and the staff of these institutions intensified, which in turn increased the influence of the latter on Spanish economic policy making.

The Stabilization Plan was presented to the IMF and OECD in 1959 as a Memorandum and declared the government's intention to come up with new methods to solve the chronic economic problems. The Memorandum was like a 'confession document' more than anything else;

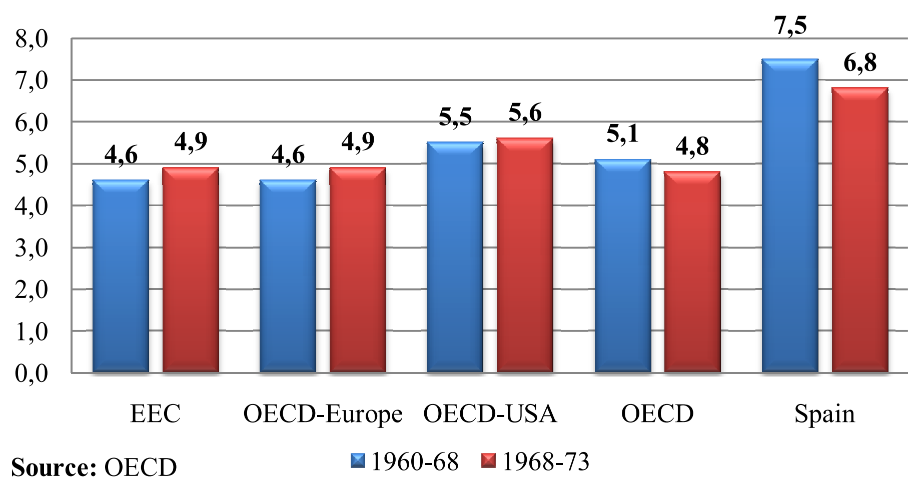
[28]As of February 1949 Spain received a loan from a leading American Bank, American Chase National Bank amounted $25 million. The US authorities' official economic aid to Franco regime was about $1.68 billion between 1953 and 1963. In addition, Spain was extended 521 million military assistance over the same period. On January 1950, the American Secretary of State, Dean Acheson, urged all UN members to send ambassadors to Spain. Furthermore, the US opened the way of Spain's membership to World Health Organization (1951), UNESCO (1952) and International Labor Organization (1953). In return for US efforts, Franco regime acted as the ally of the US against 'godless communism' and sent Spanish troops in 1951 to Korea in order to fight with the US army against Communist spread in Asia (Lieberman, 1995: 39, 41).

> The Spanish government feels that the time has arrived to formulate economic policy so as to direct the Spanish economy in conformity with the policies of the nations of the Western world and to liberate it from public interventions, inherited from the past, which no longer support the needs of the present situation (quoted in Lieberman, 1995: 51).

The plan addressed the restructuring of the fiscal and monetary affairs in Spain in addition to the opening-up of the Spanish economy in terms of trade and foreign direct investment. Regarding the public finance, the reduction in public expenditure thorough INI was targeted. The government's ability to borrow directly from the central bank (Bank of Spain) was curtailed considerably. The prices of the public services were also raised. The plan attacked to the previous populist labor policies and proposed "to eliminate the rigidities imposed by labor legislation, as well as those originating in restrictions of competition" (quoted in Lieberman, 1995: 51). The plan also introduced new measures to liberalize foreign direct investment by allowing the foreign capital to participate without official permission, albeit with certain ownership restrictions (Salmon, 1991: 3-4).

The results of the Stabilization Plan were spectacular. The Spanish economy entered into a virtuous cycle in the early 1960s and showed a very strong growth performance with more than 7% growth between 1960 and 1973, which was only surpassed by Japan. The following figure shows the growth performance of Spanish economy in comparison with the other major economic power blocks of the time.

Figure 1: GDP Growth in Spain (1960-73, %): A Comparative Perspective



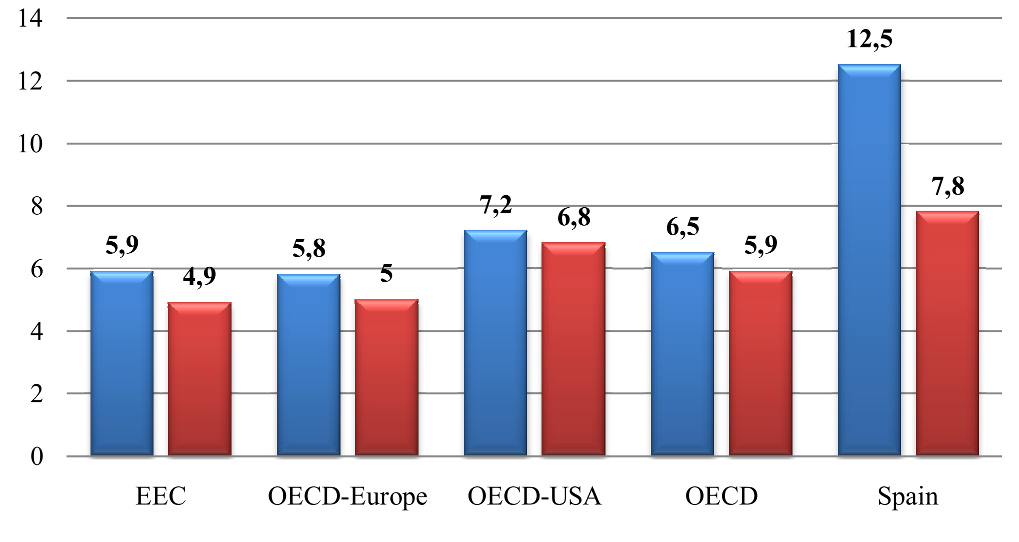
Source: OECD

The Spanish economy experienced a very rapid capitalization during this period mainly due to the high investment rates (about 25% of the GDP); to the high-technology products and capital goods from the US, and other Western European countries; and to technical efficiency methods incorporated by the foreign direct investment. As a result of the economic boom, the composition of the Spanish labor force was restructured dramatically. The percentage of labor force employed in primary sectors (i.e., agriculture, fishing and mining) declined from 40% in 1960 to 23% in 1974. Not surprisingly, the share of secondary sectors (i.e., industry) increased from 28% to 35% during the same period (Tortella, 2000: 329; Aceña and Ruiz, 2007). The transformation of the structure of labor force was the natural result of the transformation of Spanish industrial base. During the 1958-1972 period, the high-value added sectors like refining and petrochemicals (11.9%), iron and steel (13.1%), naval construction (14%), heavy machinery (14%), and automobiles (21.7%) grew faster than the traditional sectors (Tortella, 2000: 329).

Main driving force behind Spanish economic growth and transformation was the spectacular rise of fixed capital formation that enabled the transformation in labor markets and improvement in 'total factor productivity.' Spain surpassed the other

EEC (5.2%) and OECD countries (6.2%), by far, in terms of real gross fixed capital formation with 10.6%, as tabulated in the following figure.

Figure 2: Real Gross Fixed Capital Formation in Spain (1960-1973, %)



Source: OECD

In the final analysis, the liberalization of the Spanish economy triggered the fixed capital formation and imports of high value-added products. Fixed capital formation and high value-added products, in turn, underpinned the industrialization and labor productivity throughout three basic channels, which were the substitution of old techniques with those of the modernized ones; the reallocation of labor force from low value-added rural sectors to those of high value-added ones; and the intensification of capital accumulation due to the more effective and relatively less bureaucratic investment, credit, trade and tariff mechanisms (Aceña and Ruiz, 2007: 33-34).

The other striking characteristic of the Spanish liberalization between 1959 and 1975 was the change and continuity in the relations between finance capital and state. The economic liberalization in Spain was supported by the Spanish finance capital, because they understood that the existing production structure was not sustainable and some kind of economic rationalization/modernization were inescapable.

Moreover, the basic industrial and financial groups started to align themselves with the European links, since the EEC's role in Spanish economy increased dramatically due to the free trade links, tourism activities and workers' remittances. Between 1961 and 1973, the proportion of EEC in the total imports of Spain increased from 26% to 43.2%. The Spanish exports, on the other hand, advanced from 37.6% to more than 45%. Similarly, 90% of Spain's tourism earnings were to come from European continent mainly thanks to 'geographical proximity' (Tayfur, 2003: 153).

In the final analysis, the liberalization process in Spain, though it contributed significantly to Spanish economy's integration with the world, did not succeeded to overcome the oligopolistic structure due to the lack of competition. The intimate relations between finance capital and state apparatus, in this period, survived without any notable change. The financial oligopoly did gain further power with the liberalization period. As the INI was opened to the private investments, the privileged finance capital involved in the joint projects with state companies and acquired the shares of petroleum, telecommunications and tobacco corporations. Moreover, the largest seven banks, the so-called 'Big Seven', controlled more than 60% of deposits and about 64% of all branches in the financial sector (Pueyo, 2007: 15).

In conclusion, the Spanish state started to show the indications of a 'pro-active' state in the 1959-1975 period. On the one hand, it acted more rationally than the previous period by better allocating the resources and by correctly interpreting the increasing economic power of the EC vis-à-vis the US. On the other hand, the Spanish finance capital reluctantly embraced the integration with liberal Europe and became more eager to face with external competition. It is, however, the 'reactive' state symptoms that dominated many different issue areas. First of all, the gradual liberalization came out of a fiscal crisis and under the pressures of hegemonic US power. The Spanish state, as a result, reacted, not pre-empted the crisis with 'pro-active' policies.[29] Second, the Stabilization Plan was not fully implemented and the Development Plans introduced starting from 1963 curbed the influence of liberalization attempts

[29] As it is discussed in the introduction part, the crisis-driven changes are the basic characteristics of 'reactive' states.

(Salmon, 1991). Moreover, the liberalization was just restricted to the economic area and political liberalization was set aside, which in turn hampered the fulfillment of Spanish civil society's total performance. Third, the international political economy conditions were more decisive for the 'Spanish miracle' for this period.[30] As a matter of fact, the 'Spanish miracle' had many things common with the rest of Europe, since not only Iberian Peninsula but also all major European economies experienced a very rapid growth performance. The 'international Keynesianism'[31] created extra-beneficial conditions for the expansion of the capitalist world economy. As Rodrik (2007a: 1) underlines, "the period since 1950 has witnessed more rapid economic growth than any other period before, with only the classical gold standard era between 1870 and 1913 coming close. Even more striking, there has been a quantum jump in the growth rate of the most rapidly growing countries since 1950." In this context, it is clear that 'Spanish miracle' is part and parcel of a "common 'miracle' shared by the whole continent" (Aceña and Ruiz, 2007: 46) and the export-led industrialization of East Asian countries (O'Brien and Williams, 2007: 300-307).

In terms of the vantage point of this thesis, the main period that Spain gradually transformed itself into a 'pro-active' state was post-1975 episode, started with the collapse of Franco regime and consolidated with Spain's integration into European structures after a deep and quick democratization process. The rest of the chapter will be devoted to scrutinize this episode with particular reference to transformation of finance capital and state-market relations.

[30] The 'decisive international political economy conditions' refers to the expansion phase of world economy between 1945 and late-1960s. During this period, under the US hegemony, the Western Europe and Japan grew significantly and their performance created spill-over effects for the peripheral countries like Spain, Greece or Portugal. The economic, political and technical assistance provided by the US is also another decisive stimulus for the capitalist bloc to underline in this period.

[31] 'International' or 'global' Keynesianism refers to the alternative economic policy to neoliberalism, which can be described as "an approach to economics which emphasizes responsible public management of economic problems in a world-system context. Common themes in global Keynesianism include the importance of public management, democratic politics, the mixed economy, global income distribution, the management of global demand, investment and money, ecological sustainability and the importance of multiple levels of public management -- local, national, regional and global" Köhler and Tausch (2002: 101). For a detailed discussion on the validity of 'international Keynesianism', see Corden (1987).

2.2. Political Economy of the Financial Transformation in Spain (1975-1996)

After the death of Franco, his dictatorial regime was on the edge of a total collapse. The desire to integrate with the European structures and to normalize Spain had turned out to be the main ideal for many political and economic elite. In this context, Spanish transition to democracy was extremely rapid and peaceful in the sense that just three years after Franco's dead a liberal constitution was accepted and a nation-wide pluralist elections were held. Concomitantly, the Spanish Communist Party (PCE) was legalized and the Socialist PSOE came to power in 1982 with a landslide victory of 48.5%. During the transition period (1977-1982), the policies of the governing party, *Unión de Centro Democrático* (hereinafter, UCD) and its leader, Adolfo Suarez, are quite important to be neglected.[32] In fact, the Suarez government was representing the progressive wing of Spanish finance capital at that time and he was supported by them continuously during the democratic transition and economic restructuration (Tayfur, 2003: 174-175). The transition to democracy was quite enviable notwithstanding, the dynamics behind it were multi-dimensional. In the next part, these dynamics and their consequences will be discussed.

2.2.1. Dynamics of Liberalization in Spain

The pace of liberalization in Spain consolidated and accelerated immediately after Franco's death thanks to the mutual interaction of both internal and external dynamics. In terms of external dynamics, the neoliberal globalization and the EC membership process designated the most crucial determinants. The neoliberal globalization, which took off after the early 1980's under the flagship of Britain's Margaret Thatcher, United State's Ronald Reagan and International Financial

[32] It is quite important to underline the role played by UCD and its leader Adolfo Suarez during the transition period. As will be discussed in the following pages, Spain's smooth transition to democracy, the enactment of 1978 constitution, the signing of historic Moncloa Pacts (1977) between different interest groups, the bold liberalization steps and finally the first democratic power transition from a center-right party to socialists in 1982 are all the success of UCD government. For the details, see Preston (2005). For an illuminating account on Spanish democratic transition, see Encarnación (2001). For the role of Suarez in the process and his ability to reconcile the seemingly irreconcilable political and economic agendas, see O'Brien (2007).

Institutions, shifted the world political economy from state-centered and interventionist Keynesianism to market oriented neoliberalization (Harvey, 2005; Duménil and Lévy, 2005). To quote Ruggie (1982), the 'embedded liberalism', that was relied on dual compromise between state-market and capital-labor tended in favor of liberal free market, privatization, minimum state intervention and individual consumerism. Once the paradigm had shifted from the 'Keynesian Welfare Nation State' to the 'Schumpeterian Competition State', as Jessop (2002) conceptualized the term, there was no way for the states other than opening up their economy and integrate with the incoming world economic and political order. Spain, as a country that aimed to move towards the core of the capitalist economic stratification, did not resist to this pressure and took active steps to liberalize its economy under the Suarez government during the transition and then during the subsequent Socialist PSOE governments. Integration process into the neoliberal globalization period also left its imprints on the transformation of finance capital in Spain (see Part 3.2).

The second, and arguably more resilient, dynamic for the liberalization and democratization of Spain was the EC membership process. The EC candidacy/membership ambitions not only consolidated globalization's *market-oriented* liberalization steps, but also balanced and deepened them by putting strong emphasis on *society-oriented* democratization reforms. As a matter of fact, "the role of Europe in recent Spanish history has been one of great stimulus, one that has invariably provoked the same response: Europe has become synonymous with political, social and economic modernization – in other words, with democracy and social and economic development" (Castañares and Juste, 2002: 79).

The Spanish membership bid to the EC can be regarded as the internal dynamic at the same time. Immediately after Franco's death, transforming the regime into a democratic one 'from the below' had turned out to be the main political ideal of all major interest groups in Spain. There were mainly five major pillars in the pro-European camp, which were actually composing almost the entire 'Spanish nation' at that date.

Society, or the Spanish people, had constituted the first pillar of the pro-European camp. First of all, integration into Europe was regarded as modernizing Spanish political economy, democratizing and normalizing political culture in the country. The Spaniards strongly supported democracy in a referendum for a pro-democratic Political Reform Law (*Ley de Reforma Politica*), that set the legal ground for 1978 Constitution, and only 2.6% of the population voted against the motion and 3% left blank out of the 77% of population that took part in the referendum (Tusell, 2007:284-285). The unbreakable link between democracy and EC membership naturally directed the eyes towards Europe. Furthermore, the willingness of society created a culture of 'consensus' which developed the symbolic language based on "harmony, dialogue, and above all of *convivencia* (living together)" (Vincent, 2007:214). The common EC denominator and convivencia, in turn, created a fertile ground for the Spanish state to take advantage of 'total synergy' and pursue 'pro-active' state strategy in line with European and democratic framework.

Political parties had constituted the second pillar of pro-European camp in Spain during transition period. It is in fact possible to argue that there was not any political party against EC membership process, at least at the programmatic level. The European integration was an 'above the politics issue' and no single political party did hesitate to come together among the 'common European denominator.' It is mainly because of the fact that the EC was seen as the strongest guarantee for Spain's fledgling and fragile democracy (Castañares and Juste, 2002: 67). It was the widespread opinion for all segments of political spectrum that "Franco's regime equaled centralism, equaled isolation; while democracy equaled autonomy, equaled Europe" (Castañares and Juste, 2002: 69). The democratic transition in Spain forced the political parties to transform themselves. The Socialist PSOE, for example, passed thorough "a transition within a transition" and redefined its political stand point (Vincent, 2007: 215; Hanley and Loughlin, 2006: 4-5). Accordingly, the party boundaries blurred and there occurred an influx of Christian Democrats to Socialists. The Socialists understood that the establishment of a new, democratic regime could only be attainable by incorporating progressive elements inside the Francoist regime (Vincent, 2007: 210-211). On the other hand, the Conservatives, who had once identified with Francoism, became willingness in transforming the regime into a full-fledged democracy (Hanley and Loughlin, 2006: 3-4). It was in fact, the UCD's idea and achievement to incorporate the progressive wings into the mainstream political structures and to transform the regime into a functioning democracy (Encarnación, 2001). Under this kind of cooperative atmosphere, the Spanish Communist Party (PCE) was legalized in 1977 April.

The Employer's Association had become the third pillar of pro-European group during Spanish transformation. In 1980, the *Confederacién Espanola de Organizaciones Empresariales* (CEOE), the employer's association declared its open support to the EU in a document that argued that the Spanish economy had reached the limits of development in its existing half-closed structure. It encouraged opening up and transformation of the Spanish economy through the EC membership process (Closa and Heywood, 2004: 20). The UCD government signed the Moncloa Pact (1977) in order to set the price and wage guidelines and to frame the basics of economic/institutional reforms (Lieberman, 1995: 175). Similar to Employer's Association, also the biggest banking capital in Spain clearly supported the democratization and European integration, a point of which has crucial importance for the aim of this thesis (see part 3.2). On the wake of the post-Franco period, there was actually two ways in front of the Spanish finance capital: Either to modernize and integrate Spanish economy with the rest of the world or to insist on unproductive 'inward looking autarky.' The logical way was pursued by the biggest private banks and they actively took part in transition period. The first four cabinets after the death of Franco, for example, were composed of 26 ministers directly and 24 indirectly related ministers to private bank capital thorough family ties (Lancaster, 1989: 146). The progressive wing of Spanish finance capital, during transition years, actively backed the UCD governments. Moreover, "several ministers had close personal ties with the powerful Spanish banks" (Tayfur, 2003: 175).

The final actors that supported transition to the new regime were the ones who were 'embedded' to the Francoist state apparatus. These were the monarchy and the church. The Spanish King, Juan Carlos I, expressed an unequivocal support to the democratic transition, albeit he was declared to be the heir of Franco. The King, however, desired to become the 'king of all Spaniards' and to be one "of justice for all… with everyone subjected to the rule of law and with the law always at the service of the community" in a democratic Spain (Vincent, 2007: 211). As a result, he appointed pro-democratic figures to critical state posts and succeeded to keep the military forces in their barracks (Özçer, 2006: 177-193). Similar to King's mature attitudes, the church, which was once the natural ally of Franco, decided to remain 'neutral' under Cardinal Tarancón and "refused to endorse any particular political option" (Vincent, 2007: 211-212). Cardinal's and young church members' decisive attitude to remain outside the party politics had profound effects for the consolidation of democracy in Spain.

All in all, Spain's transformation towards democracy and integration with Europe realized in a very short time period thanks to the consensus and desire of all major groups in the society, including the finance capital. Moreover, the 'pro-active' strategies of the state representatives and monarchy enabled a smooth transition. Afterwards, Spain adopted a democratic Constitution with 83.87% support of the population in 1978 and the Socialist PSOE government took power with a landslide victory in 1982 elections.[33] In addition to the consolidation of democracy in Spain, during the reign of Socialists, the Spanish finance capital internationalized rapidly and tried to adapt itself to the neoliberal globalization thorough the European Single Market. The *internationalization of Spanish finance capital* and the PSOE government's (or the Spanish state's) role in this process will constitute the basic theme of the rest of this chapter.

2.2.2. The Transformation of Finance Capital and Neoliberal Globalization

Albeit the success of the UCD government in securely transforming the regime from an authoritarian nature into a democratic one and in restructuring the economy recognizably, when the Socialists came to power, the Spanish economy was in a bad situation due to the subsequent oil crisis in 1970s and the turbulence in world economy (Tusell, 2007: 340). Due to the stagflation, unemployment and external

[33] The Constitution aimed to create "social and democratic state of law which advocates liberty, justice, equality, and political pluralism as the superior values of its legal order" (Article 1).

deficits, Spain had turned out to be one of the "worst performers within the OECD area" (Holman, 1996: 117). In order to overcome the dismal economic picture, internal divisions and socio-political difficulties, the PSOE government aimed to reconfigure the domestic political economy by creating a new vision which was acceptable to the majority of the society. The vision of PSOE was based on three pillars; the consolidation of the democratic regime, economic modernization and the upward mobilization towards the centre of the European integration. The greater part of Spanish finance capital played a vital role in this process. Although economic elites did not satisfy with the UCD's economic policies, they did not veer towards traditional political structures. On the contrary, Spanish finance capital to a significant extent supported the vision of PSOE government (Tayfur, 2003: 175). Within the context of this study, the PSOE government's policies on the economic pillar will be elaborated on in more detail in the next part.

2.2.2.1. Economic Policies of PSOE Government

Obviously, the European project was the 'glue' of the Socialists that kept all societal pillars together. As an isolated country on the periphery of Europe during the Franco era, Spain was proud of being 'different' than the rest of Europe. It became apparent in time that "Spain is different" dictum brought nothing to the country and 'normalizing' Spain had turned out to be the central project of the political and economic elites starting from the early 1970s. The belief that Spain was "not so different" gradually gained a solid ground. As Julian Marias, philosopher and sociologist, underlines;

> Spain is not so different, as special as it is manipulatively said to be. We must stamp put once and for all the idea that Spain is an anomalous country… a case apart, an exception that justifies any action (quoted in Chislett, 2008).

Once Spain left behind the Franco regime in 1975, European integration had become *sine qua non* to "burry Spain's recent past once and for all" (Castañares and Juste, 2002: 45). The Spaniards strongly combined the European integration process with democracy and economic modernization. On the one hand, Spanish democratization was directly linked to the European integration process. On the other hand, the modernization of Spanish economy was seen as the pre-condition for and the result of Spain's European aspiration. Not surprisingly, the economic policies were shaped in this direction. In this regard, the basic necessities of economic liberalization and free competition were inescapable to be materialized. First Suarez governments prepared the institutional, legal and political backdrop for EC membership. In order to fulfill this aim Suarez government created a plan called *Programa Económico del Gobierno* that "set out the government's liberalization as a prelude to eventual membership of the EC" (Tayfur, 2003: 177). The same strategy pursued by the PSOE after 1982 elections without any interruption. Yet, Spain's economic adjustment to free market economy was by no means in the context of neoliberal globalization since the government pursued an active and 'heterodox way' throughout the process. In this context, the rest of the chapter aims to reveal the 'heterodoxy' in Spanish integration into European economy.

The Socialist government started the job with overhauling and restructuring the periphery-like Spanish economy. One of the aims in mind was to improve the structural basis and to create transnational business armada of Spanish origin (Boix, 1995: 27-28).[34] In this direction, *White Paper on Reconversion and Reindustrialization* (Royal Decree 83/1983 and Royal Decree 27/1984) was put into force in 1983 to stimulate transformation of the economy from low-value added, traditional sectors up to the high-value added, modern ones. The White Paper covered three aspects of industrial policy. These were the determination of specific measures to achieve the targets of the government in regard to industry, the costs and financing of the reconversion and reindustrialization of Spanish economy, and the unemployment problem (Lieberman, 1995: 311).

The ultimate project of the Spanish elite was to create 'national champions' in the industrial and financial sector which were capable of competing in the European

[34] Boix (1995: 27) underlines this point by arguing that "the investment buildup was related in several cases to the cabinet's attempt to launch certain companies into leading positions in the world market. In order to build something akin to a set of 'national champions,' the government continued, in the first place, to pursue a strategy of rationalization and concentration of business lines around strong companies…"

Market. There were two interwoven aims in the minds of the decision-making elite to reach this ultimate project. At first hand, the government merged public enterprises around strong entities and rationalized/reorganized the administration of the merged companies. Accordingly, handful of public companies came into existence. For example, all state-owned electricity companies were brought together under the umbrella of power generator, Endesa. The iron, steel, aluminum and electronic companies were organized around CSI-Aceralia, Inespal and Inisel. The oil and gas companies were transferred under the ownership of one company, Repsol (Arocena, 2004: 3-4). These companies, once they were the "dustbin of public sector", transformed into profitable companies at the end of 1980s. The INI, for example, became a profitable organization by 1989 (Tayfur, 2003: 173-174).[35]

> The INI reduced its losses to pta 41 billion by 1987. By 1988, the whole sector was able to report pta 31 billion in profits… As a result, public transfers and subsidies to state companies started to decline from over 3 percent of GDP in 1982 to less than 2 percent by the mid-1980s (Real, 2001: 170).

The second aim of the government was to provide a transition period to consolidate these companies. Spain's membership to the EC in 1986 did not leave the government too much time to transform its industrial base in a protectionist way. As a result, up to 1993, the year in which the European Single market established, the government increased investments in the future's 'national champions' of Spain. The public giants, Repsol, Endesa and Telefónica were subsidized through tax reliefs, cost reduction schemes, and other means despite the pressure from Brussels (Boix, 2000:182). As Arocena (2004: 4) underlines the main intend of the government was to "protect [them] from foreign and domestic competitors." Therefore, capital formation by public firms increased about 15% every year in the mid and late 1980s, a rate higher than the private sector (Boix, 2000: 181; Real, 2001: 171).

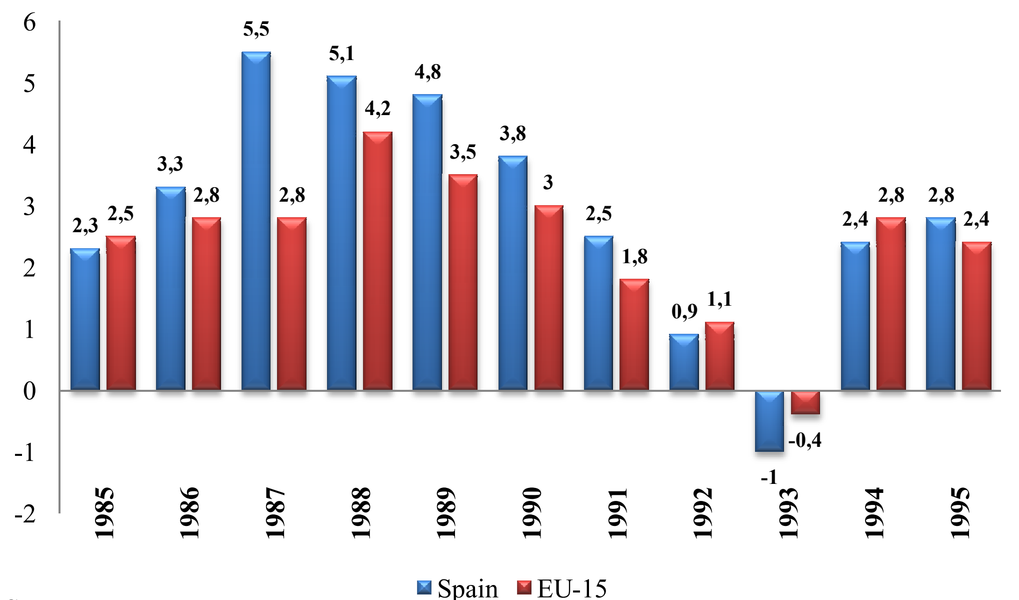
Moreover, the Spanish state put emphasis on the Research and Development (R&D) capabilities of the economy and enacted a series of reforms on the technology field in the second half of 1980s. A National Plan for Electronic and Information (PEIN I) was enacted in 1984 and the PEIN II and PEIN III followed the first Plan. The aims

[35] For a detailed account of state policies in restructuring state enterprises, see Real (2001).

were to stimulate domestic demand for electronics and information goods, to improve Spain's high-tech exports, and to reduce Spain's technological dependence to foreign R&D technology (Lieberman, 312: 312-313). Moreover, the INI doubled its expenditure on R&D to 2% of its total sales over the same period (Boix, 2000: 181). As a result of 'pro-active' state policies and targeted-subsidies the share of R&D in terms of GDP increased from 0.42 in 1983 to 0.90 at the beginning of 1990. It was clear that Spain was lagging well behind the developed countries of the time. Nevertheless, she achieved considerable progress in itself. During the same time the country's research scientists rose from 1.0 to 2.1 per one thousand members of active population. The ratio of the annual number of Spanish scientific publications to the worldwide number of scientific publications increased from 0.8% to 1.6% in 1990 (Lieberman, 1995: 293-295). Moreover, 70% of Spanish companies introduced new technologies over the same period (Tayfur, 2003: 173). The investments in R&D helped reconverting the Spanish firms into a more competitive position within the European Single Market.

The Plans were implemented quite successfully over the subsequent PSOE governments. Especially after mid-1980s, the economy followed a rapid and sustainable growth pact. Accordingly, 80% of the investment targets in the plan were realized (quoted in Tayfur, 2003: 173). What is more important for this study is that the role of the state in the industrial transformation process was quite clear since "the subsidies and credits of the Industrial Credit Bank were equivalent to some 85% of the total investments undertaken by reconversion firms" (quoted in Tayfur, 2003: 173). It is an undeniable fact that the recovery of the world economy also contributed to the process significantly. Yet, arguably, it would not have been possible for Spain to exploit the expansion of world economy without the Reconversion Plans. The following figure seems to justify this interpretation in the sense that Spanish economic growth succeeded to surpass the EU-15 between 1985 and 1995, except four years.

Figure 3: GDP Growth (1985-1995, %): Spain vs. EU-15



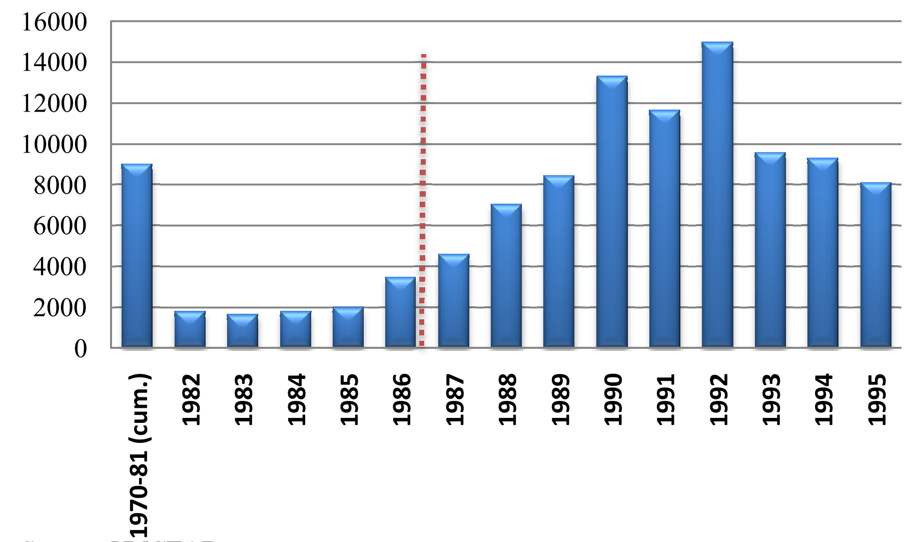
Source: Eurostat

In this period, the GDP per capita in terms of purchasing power parity increased from €7,950 in 1985 to €13,636 in 1995, which corresponds to an income improvement from 71.6% of EU-15 to about 79% (Piedrafita, Steinberg and Torreblanca, 2006: 19-21). Another striking success of Spanish economy during PSOE government was to attract FDI. The liberalization of Spanish economy, the regulation of foreign investment decrees and the EC membership contributed to sky-rocket the badly needed foreign investment. Accordingly, Spain attracted $97.3 billion FDI in cumulative terms during PSOE government according to UNCTAD.[36] The cumulative FDI inflows were only $8.98 billion between 1970 and 1981 (see figure 4).[37]

[36] The Data is retrieved from United Nations Conference on Trade and Development (UNCTAD) interactive database. <http://stats.unctad.org/FDI/TableViewer/tableView.aspx>, (Arrived on: 31 March 2010).

[37] The figure is produced according to the US Dollar at current prices and current exchange rates in 2010.

Figure 4: FDI Flow in Spain (million dollars)



Source: UNCTAD

The EC membership was a turning-point for the transformation of Spanish economy in general and FDI regime in particular. The EC's share in Spanish FDI increased to 65% at the end of the 1980s. Moreover, the EC transfers to Spanish economy underpinned the improvement of the infrastructure and provided a suitable environment for further FDI. According to OECD reports, EC transferred more than 3.5 billion ECUs to Spain in the period in question, most of which was used for infrastructural development, industrial restructuring, agricultural support, etc. (Tayfur, 2003: 178).

2.2.2.2. The Spanish Finance Capital under PSOE Government

The other crucial aspect of Spanish economy in this period was the transformation of state-business relations. The financial elite and 'interlocking directorates' with the industry occupied the central point in overall Spanish political economy under the PSOE government.[38] The consolidation and agglomeration of Spanish private banks over the course of history paved the way to increasing influence of finance capital on the political agenda of the Spanish governments. Spanish governments, on the other

[38] For a comprehensive analysis of 'interlocking directorates' in Spanish economy, see Aguilera (1998).

hand, developed particular strategies to "promote the strong companies and sectors that could stand on their own in a European setting" (Holman, 1996: 157). Since the main economic policies were explained in the previous section, this part will concentrate on the consolidation and internationalization of Spanish finance capital under the consecutive Socialist governments.

At the time the PSOE government came to power, the biggest seven Spanish private banks (the so-called *siete grandes*) were controlling almost 70% of total banking activities, directly or indirectly. Apart from their enormous power in commercial banking sector, they were active on the boards of directors of all major industrial firms. For example, the presence of private banks in the 100 largest industrial firms was worth mentioning: They were directly controlling 54% and participated in more than 83% of 'the biggest 100' companies in industry (Holman, 1996: 163). In addition the banking oligopoly was in a position to influence the economy via equity participation, cross board membership between the banks and firms, family links, and credit policies. Moreover, through a consultative committee that 'advises' to the economic and monetary policies of the government, *Consejo Superior Bancario*, Spanish banking elite played an active role in shaping the economic policies. If one approaches the issue from a political economy perspective, it is apt to ask the winners and losers of PSOE's new economic strategy and investigate 'who-gets-what' during the internationalization of Spanish economy. In this context, it is no exaggeration to conclude that the 'pro-active' policies of Spanish government considerably helped the Spanish finance capital to successfully consolidate in the world political economy structures.

Opening up the Spanish finance capital to the European markets was not an easy risk to be taken for the government due to the relative weakness of the economy *vis-à-vis* the EC member states. For example, even the biggest Spanish banks were at the very fledgling state if they were compared to their European counterparts. As the following table tabulates, the biggest Spanish bank in terms of assets, namely the *Bonesto*, was just at the 95th rank among the biggest 500 banks in the world.

Table 1: The Position of Biggest Spanish Banks in the World (1983)

Bank Name	Assets (million dollars)	Rank (among the largest 500)
Banesto	20,034	95
Central	19, 171	99
Vizcaya	15,078	117
Bilbao	14,206	122
Santander	12,928	131
Hispano A.	12,632	134
Popular	8,251	188
Source: (quoted in Holman, 1996: 172)		

The Socialist government pursued a two-phased strategy to overcome the competition problem of Spanish finance capital. First, it aimed to restructure the public utilities up until they became strong enough to stand out on their feet in the private market. It mainly achieved this by reconversion plan, the details of which explained in the previous part.

Then, it followed a very active 'concentration strategy' through mergers and acquisitions to reduce the number of banks in the market. In order to benefit from the economies of scale and to make Spanish finance capital competitive enough to deal with their European counterparts, the government acted as an 'arbiter' in the mergers process. The Spanish government also protected the biggest banks in Spain from foreign acquisition by directly intervening into the deals. The government's 'concentration strategy' was backed by the financial elite as well. In José Ángel Sánchez Asiaín's words, the President of Banco de Bilbao, "banking mergers [were] the only way to prevent Spain from becoming completely dependent on the big European banking consortia in a Single Market characterized by the free movement of capital" (Holman, 1996: 174). As a result, the first breathtaking mergers/acquisitions wave took place between 1987 and 1993 in Spanish finance capital.

In January 1988, the Banco de Bilbao and the Banco de Vizcaya decided to merge and created *Banco Bilbao Vizcaya*. The merger created the biggest bank in Spain with a share of 20% of the market and BBV became the 33^{th} largest bank in the European Community (Tekinbaş, 2009: 73). The merger of two private banks which were known with their close affinity with the Socialist government paved the way to other big mergers and acquisitions in Spain.

In May 1991, six public banks, functioning in different segments of the economy, were brought together by the Socialist government to create a more active and stronger financial system in the public sphere. The banks were brought together under the umbrella of government agency CBE (*Corporación Bancaria de España*). The gigantic merger of public banks created the biggest financial institution in Spain with its control of the 13% of Spanish banking system. The former executive of the Banco de Vizcaya, Francisco Luzon, became the president of the CBE (Holman, 1996: 185-186). Immediately after the establishment of the CBE, the Banco Central and Banco Hispano Americano, the other big banks in the Spanish financial system, merged and formed *Banco Central Hispanoamericano* (BCH).

The last phase in the merger wave was realized in 1993 when the government took another 'pro-active' stance by transforming the state-owned CBE into *Argenteria*, half of which was privatized and sold to the public. In the same year, the pre-merger period's largest bank Banesto was sold to Santander after a bid among Argenteria, BBV and Santander. The auction was set by the government in a way that it was almost impossible for the foreigners to take part in the bid (Perez, 1997: 162). It was in fact, a very typical strategy of the government to protect domestic market in the privatization and merger process.

As a result of an intense mergers process, the Spanish banking system reshaped significantly in the wake of the establishment of European Single Market and Maastricht Treaty in 1993. When the Socialist government dethroned by the Conservative PP (*Partido Popular*) in 1996, Socialists 'concentration' policy was achieved to a significant degree and the financial power was consolidated in the hands of four major banks; Banco Bilbao Vizcaya (BBV), Banco Santander, the

Argenteria group, and the Banco Central Hispano (BCH). These similar-sized banks, as a result, controlled approximately the 75% of all deposits in the entire sector (Tekinbaş, 2009: 77).

2.3. The Rise of 'Pro-active' Spanish State: 'Protectionist Liberalization'

The conventional theory of economic liberalization assumes that the opening up an economy to foreign competition will help dissolving the oligopolistic structures and make the extraordinary profits impossible. Yet, the liberalization and integration into European structures did not yield the expected results for the Spanish private banking. On the contrary, the Spanish finance capital took bold steps in internationalizing its presence beyond the Spanish territories. Spain, hitherto 'a peripheral country,' started to emerge as a country to play regional power role in its own 'periphery' in the mid-1990s. What is vitally important within the context of this study is the emergence of a 'pro-active' Spanish state in this period; at least, in the finance capital sphere. There are three reasons for the justification of this argument.

The first one is about the establishment of widespread consensus in the democratic transition period. One of the salient characteristic of 'pro-active' states is their ability to create 'total synergy' concentrated around a common goal/ideal. In this aspect, Spain is an illuminating case in point; since transition to democracy was quite rapid and bloodless (see Part 2.2.1). It is mainly because of the fact that the establishment of democratic regime and the creation of a progressive Constitution was the result of the general public will. During the process, the central interest groups in Spain very well understood the importance of pluralist parliamentarian regime and acted in line with the necessities of democratic 'pact-building' culture (Caloghirou, Voulgaris and Zambarloukos, 2000: 89). Accordingly, different interest groups either strongly supported the transition or remained silent not to impede the process, as a result of which democracy turned out to be the 'only game in the town.'[39] The other issue that

[39] It is not possible to argue that democracy, by itself, refers to the 'only' common goal among different interest groups. In different states, other instruments or aims may tun into 'gommon goals.'

created 'total synergy' was the EC membership bid. The interest groups in Spain quickly linked the democratization and economic modernization to EC membership process and most of the time used these terms interchangeably. In Boix's words "from a political dimension, the EC was seen as a particularly useful mechanism to strengthen democracy. From an economic point of view, EC membership was also judged to be highly beneficial" (Boix, 2000: 166-167). The Spanish state, during these critical years, acted 'pro-actively' and the state bureaucrats behaved as 'policy entrepreneurs' to create a consensus culture to the extent to force the 'limits of the possible'. The compromise culture established in this period enabled to "negotiate without social upheaval or the destruction of such traditional institutions as the Church, Monarchy, and Army" (Baklanoff, 1996: 111) which in turn helped Spanish state to benefit from different ideas to promote common mind without social polarization (Özçer, 2006).

The second one is about the progressive role played by finance capital and Spanish state's ability to manage this opportunity. As it was underlined in the first argument, "EC membership constituted the most important developmentalist goal and an opportunity to adjust the Spanish economy to core-like production structures" that would force/enable Spanish entrepreneurs to modernize Spanish economy (Tayfur, 2003: 177). In this regard, Spanish finance capital depicted a pro-integrationist and reformist attitude. Restructuring policies were strongly supported by a "substantial section of private banking capital, which had an interest in securing its competitiveness within the context of a globalizing economy, so as to avoid foreign take-over" (Caloghirou, Voulgaris and Zambarloukos, 2000: 88). The Spanish state, on the other side of the coin, successfully combined two aims. On the one hand, it developed a very 'pro-European' rhetoric by wholeheartedly accepting the necessities of European economic integration; on the other hand, Spain's integration was by no means materialized in an orthodox way since the state pursued very active strategy by protecting the domestic market up until 1993 and by implementing a

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Moreover, not the democracy by itself, but the other material benefits in economic and social fields that come along with democratic regimes may be aimed by the societal actors in supporting democratic norms and institutions. It is, in the final analysis, the existence of a common denominator that helps mobilizing social forces in achieving particular aims. For example, the Spanish finance capital supported democratic consolidation, since they saw their future in the European structures, and democratic standards were *sine qua non*, in this regard.

successful 'concentration' strategy for financial and industrial firms. As a result, when Spain fully opened its financial and industrial economy to foreign competition, the Spanish finance capital was restructured to a significant extent to compete against the European firms (Tekinbaş, 2009: 78).

The third one is about the establishment of the link between pro-active foreign policy and economic power. The Spanish state in this period, pro-actively interpreted the changing domestic political economy conditions and restructured its foreign policy along with this necessity. As the finance capital consolidated at home, they searched for alternative investment opportunities abroad. The Latin American countries had turned out to be the number one destination for Spanish firms due to (1) vast opportunities available in the region thanks to neoliberal globalization wave on the continent, (2) Spanish firms' extensive experience on how to deal with recently privatized companies, and (3) the common culture, language, and history (Guillén, 2005: 73). The Spanish state, represented by King Juan Carlos, played a very active role in the "reconquest of its historical community" (Baklanoff, 1996: 111). In 1981, Spanish government initiated a commemoration of the 500th anniversary of Columbus' voyage to new world. The commemorations lasted more than a decade and Spain committed $20 billion to support *Quinto Centenario* (Iberoamerican Community). The Spaniards' interest toward Latin America increased considerably after Spain's membership to the EC as the part and parcel of their strategy of becoming a central country in the Community rather than a mere 'latecomer' in the Union (Guardia, 2004: 106-107). The Spanish government insistently tried to direct the EC's concentration to the region and to become a model for the Latin countries to be imitated (Baklanoff, 1996: 114-115). Prime Minister Gonzales acted pro-actively in Latin America to act as a bridge between the region and the West by positioning itself as the "natural spokesman for Europe in Latin America and for Latin America in Europe" in terms of democracy and economic development (Tayfur, 2003: 192, 194). The main aim of the Spanish state was to provide 'stability' for the Spanish firms that appeared as the emerging stars on the continent in the early-1990s. Having realized the ample investment opportunities due to the mass-liberalization in Latin American countries, Spanish firms were on the forefront to penetrate in the telecommunications, transportation, banking and tourism. By 1992, they had become the largest of the seven major European investors in Latin America, which accounts for 31% of total EC investments (Baklanoff, 1996: 118).

On the financial sphere, the Spanish banks directed their concentration to the Latin American countries at the first phase of their internationalization process. The commonality of the language and the easiness of communication ('no need to translate memos') helped reducing the managerial difficulties in the region for Spanish banks (Guillén and Tschoegl, 2000). In 1993, Santander acquired *Fincard*, Chile's largest credit card issuer. Afterwards, Santander acquired *Financiera Fusa*, a consumer finance company in Chile in 1995. In 1996, it acquired Banco *Osorno y La Union* and became the second largest bank in Chile. On the other hand, BBV became the first mover in Mexican banking sector and gradually improved its position. In 1997, it acquired the 55% of Banco Provincial in Venezuela and Santander bought Banco de Venezuela (Guillén, 2005: 113-118).

On the industrial sphere, Telefónica acquired shares of the major holdings in Argentina, Chile, Venezuela and Peru. Iberia Airlines, the Spanish flagship carrier, invested $800 million to the privatization of state-owned airlines in Latin American countries. Baklanoff (1996: 119) documented the successful penetration strategy of Iberia Airlines as follows;

> In November 1990, Iberia led a consortium of Argentine investors that initially gave the Spanish carrier a 30% stake in Aerolineas Argentinas. In the following year, Iberia acquired 35% of Chile's Ladeco and 45% of Venezuela's major international airline, Viasa. Iberia outbid KLM and Royal Dutch Airlines, which withdrew after the Venezuelan government set a minimum price of $135 million… Along with air transportation, Spanish investment has also been attracted to tourism, but within a different geographic pattern. Mexico ranks first, where the Sol-Melia group, Spain's leading hotel chain, has invested $1 billion in 6 hotels.

To sum up the argument so far, the 'pro-active' states put importance on the financial regulation/surveillance mechanisms during gradual and controlled liberalization processes and concentrate on the establishment of productive links between financial sector and the production side of the economy before fully liberalizing their financial systems. The Spanish case, in this context, depicts the fledgling characteristics of a 'pro-active' state between 1982 and 1996 period. As a result, the political economy of Spain moved toward the centre of Europe better than its counterparts like Turkey and Greece (Caloghirou, Voulgaris and Zambarloukos, 2000). Moreover, the structural fundamentals of Spain's integration into the global economy in the globalization period were settled strongly. Next chapter will investigate the ways in which Spanish state played a very active role in the further internationalization of Spanish finance capital between 1996 and 2009.

CHAPTER 3

THE INTERNATIONALIZATION OF SPANISH POLITICAL ECONOMY (1996-2009)

Starting from mid-1990s, Spain has achieved remarkable success in transforming itself from a relatively backward country to one of the biggest economies in the world. By different measures, it is now the world's 9th biggest economy. It is the 8th largest stock of outward direct investment country and it attracts the 7th largest inward direct investment in the world. The Iberian country is the second largest tourist destination and the third largest car producer in Europe (Chislett, 2010a: 14).

After becoming member of the Euro Area and adopting single currency, Spain pursued a very active strategy to further consolidate its stature in international relations. Madrid, in this regard, followed a two dimensional approach. On the one hand, it tried to mobilize its political economy upwardly towards the core European states. On the other hand, it struggled to grasp the opportunities opened up in the Latin American market especially during the 1990s. In fact, the Spanish state foresaw the first and second aims indispensible, thereby followed an active strategy to strengthen its position in Europe via standing out in Latin America both economic and political terms. In this context, Spanish finance capital occupied the central place as the "practical hand" of Spain in the region (Tekinbaş, 2009: 93-106). As it was the case in the previous chapter, the Spanish finance capital acted as the flagship of the internationalization of Spanish economy and became the new 'Spanish armada' or 'conquistadores' at the international fora (Toral, 2008; Baklanoff, 1996: 117-120).

In this chapter, the internationalization of Spanish economy between 1996 and 2009 will be scrutinized with special reference to the transformation of finance capital by revealing the role of state strategies. In this regard, in the first part, the major developments in Spanish economy will be documented during the Aznar (1996-2004) and Zapatero (2004-2009) governments. In the second part, the emergence and expansion of two 'new Spanish financial conquistadors', namely Banco Santander and BBVA, will be analyzed by revealing their increasing influence in first Latin American market; then, in the European and US markets. The demonstration or driver effect of Spanish financial firms and the organic link between finance capital and the industrial capital in the economic expansion of Spanish multinationals will also be the central theme. In line with the main research question of this thesis, the third part will be devoted to the 'pro-active' strategies of Spanish state in the creation and expansion of 'new Spanish conquistadors.'

3.1. The Internationalization of Spanish Economy

After transition to democracy, Spain was ruled by the left-wing majority governments for a long time. The Socialist PSOE government managed the country uninterruptedly for about 13 years. When Felipe Gonzales, the head of the Spanish Socialist Party, left the premiership, Spain turned out to be one of the developed countries of the European continent.[40] In 1996, the PSOE government was replaced by the Conservative Popular Party (hereafter, PP).[41] Having taken the political power shift as the main criterion for periodization, in this part, the internationalization of Spanish economy will be assessed according to the economic policies of right-wing Popular Party governments under the leadership of José María Aznar (1996-2004) and the left-wing PSOE governments under José Luis Rodríguez Zapatero (2004-2009).

[40] Tekinbaş (2009: 83) pinpoints the successes of PSOE era between 1982 and 1996 as follows: First of all, in this era, Spain modernized and liberalized its economy so as to compete against the major European powers. Second, PSOE improved the human capital to come to terms with the social cohesion policies. Third, it added to the capital stock of the country by attracting huge amounts of FDI. Fourth, PSOE helped transforming Spain into a full-fledged liberal democracy mainly thanks to the establishment of 'State of Autonomies.' Fifth, PSOE acted as the centrifugal power in bringing Spain from the isolationist European periphery to the integrationist core. Sixth, it achieved the military reform so as to make democracy the 'only game in the town.' Finally, it established the necessary institutions and dialogue channels to integrate civil society into the domestic and foreign policy-making mechanisms. For detailed analysis of PSOE, see Kennedy (2006).

[41] The retreat of PSOE has many political and economic reasons extending from mass corruption and fraud scandals to the 'dirty war' against ETA and the economic stagnation in the country. For details, see Salvadó (1999: 182-185).

3.1.1. The Economic Policy of Aznar Government (1996-2004)

The second half of the 1990s refers to “significant change within fundamental continuity” in terms of Spanish political economy (Powell, 2003: 159). The changes were mainly about the policy-making instruments rather than the ultimate national goals. Accordingly, on the political realm, PP tried to position itself as a conservative party protecting the ‘traditional values’ by opposing the controversial issues in society such as abortion and same sex marriages (Gilmour, 2006: 27). At the same time, to demonstrate its rupture from the Francoist roots, it formed a coalition government with the regional Catalan (*Convergència i Unió*), Basque Nationalist (*Partido Nacionalista Vasco*) parties and the Canarian Coalition (*Coalición Canaria*). In addition, Aznar government, in order to position itself as “centrist and reformist” party at home and to become an active player at the international Christian Democrat platforms, enthusiastically pursued a liberal market ideology on the economic field (Gilmour, 2006: 28; Tayfur, 2003: 210-212). In fact, all the major business groups in the 1990s were demanding further liberalization and Europeanization to take the advantage of the global opportunities for more prosperity (Tayfur, 2003: 212). From this point of view, PP successfully positioned itself to address the new demands of the economic pressure groups, the demands of which could not be realized by the over fatigue PSOE governments.

Apart from these ruptures, there were major continuities in Spanish political economy during Conservative management. One of the striking continuity, in this context, was the new government’s European policy (Gilmour, 2006: 41). From the vantage point of this policy, Aznar sought to place Spain as a core member in the EU and never applied for ‘op-outs’ to remain outside the inner European circles. On the contrary, he always tried hard to be in the first wave of EU developments (Grannel, 2000: 66-67). Once the aim of Spanish government had turned out to secure a seat on the ‘first train’, it played a very active role and showed a high performance to become a member of the European Monetary Union (EMU) during the 1990s. Accordingly, all macroeconomic policies and adjustment plans were shaped in line with the goal of adopting the single European currency, euro. Similar to the previous PSOE governments, the Conservatives devoted considerable part of their energy to design and implement the *Convergence Plans*. In the eyes of Spaniards euro was the way towards a stronger Europe; thereby, a stronger Spain. Rodrigo Rato, the Economy and Finance Minister and Vice President of PP during Conservative period, acknowledges this understanding by interpreting euro as “a great European success brought stability, integration and prosperity” (Granel, 2000: 73). Accordingly, the Conservatives stuck to the neoliberal agenda and pursued intense privatization policies accompanied with strict macroeconomic targets in order to bandwagon the euro train. Yet, Aznar also pursued a ‘pro-active’ stance to prepare Spanish finance capital to the new competition wave in the new global era (for the ‘national champions’ policy, see Part 3.3).

The main aim of Aznar was to transform Spain into a ‘core’ country in Europe and economic strength was regarded as *sine qua non* for this aim. As a result, Spain followed a two-track strategy. On the one hand, Aznar tried to liberalize the Spanish economy and integrate it into the European and global circles; on the other hand, he encouraged the creation of bigger Spanish firms to invest in abroad. As a matter of fact, Aznar saw the strong link between economy and politics and aimed to create a sphere of influence for ‘strong Spain’ via economic means (Tekinbaş, 2009: 86).

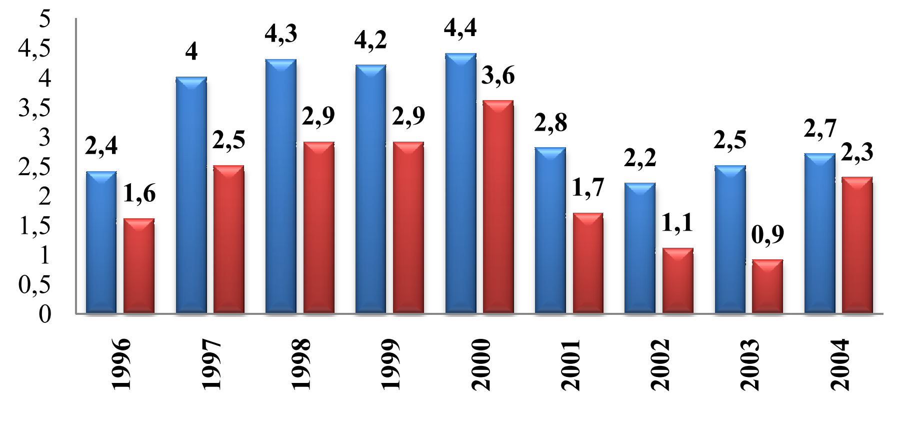
The first Convergence Plan, which aimed to cut the budget deficit, to decrease public debt and to curb inflation along the lines of the Maastricht criteria, was implemented by the PSOE government in 1992. However, the 1992/1993 economic crisis did not enable the Socialists to stick to the targets in the plan, which resulted in a revision in 1994 (Salmon, 2000: 19-21). After taking power, the PP governments developed the third (1998-2000) and fourth Convergence Plans (2000-2004). Accordingly, the strict monetary and fiscal policy was put into implementation under the auspices of legal regulations. Since Spanish Central Bank, Bank of Spain, was given independence in 1995, it followed active anti-inflationary policies. Moreover, the public monopolies were privatized to adjust the public finance. The privatizations in this period were so intense that one observer interpreted Spain as “a country was up for sale” (Chislett, 2008a: 27; see Part 3 for details).

> The liberalization of the domestic market as European single market directives began to unfold made the largest Spanish companies – especially

the state-run companies in oligopolistic sectors such as telecommunications (*Telefónica*), oil and natural gas (*Repsol* and *Gas Natural*) and electricity (*Endesa*), all of which were to be privatized and become cash rich – and the big private-sector commercial banks conscious of the need to reposition themselves in the more competitive environment… [During Aznar government] hardly a week passed without an acquisition and it seemed that Spain was up for sale.

Partially thanks to these plans, Spanish economy was restructured significantly (Tayfur, 2003: 204). The Convergence Plans were implemented quite successfully and the Spanish economy grew higher than the EU-15 average every single year during the Conservatives. The uninterrupted growth of ten subsequent years (3.2% annually, see figure 5), created a very long cycle of economic growth in modern Spanish history and only Ireland had performed better than Spain in this period in the Eurozone (Royo, 2009b: 19).

Figure 5: GDP Growth (1996-2004,%): Spain vs EU-15

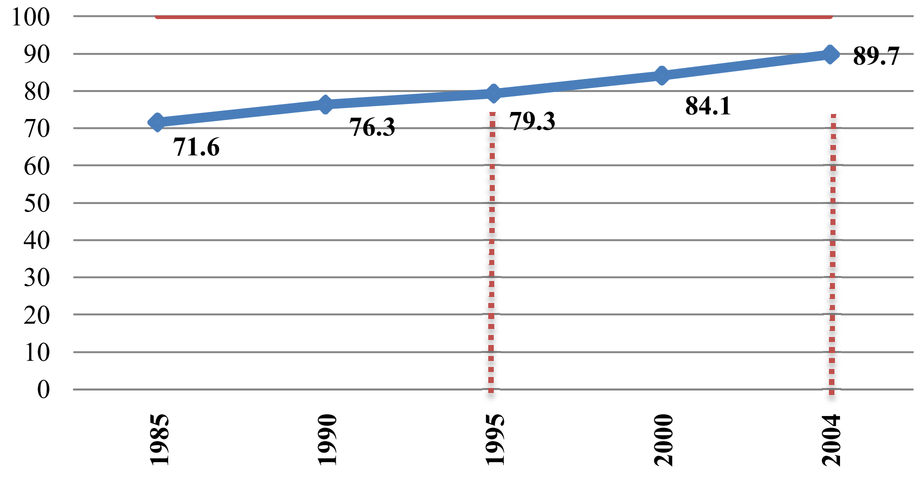


Source: Eurostat

The sustained growth of Spanish economy noticeably contributed to the welfare of the Spaniards. Spain, during Aznar period, increased its per capita income from €14,353 in 1996 to €22,260 in 2004.[42] The increase in personal income was not only in absolute numbers. When the figures are examined in relative terms, it becomes apparent that Spain converged to European 'core' during the 1996-2004 period.

[42] The data are retrieved from EU's official statistics office, *Eurostat*.

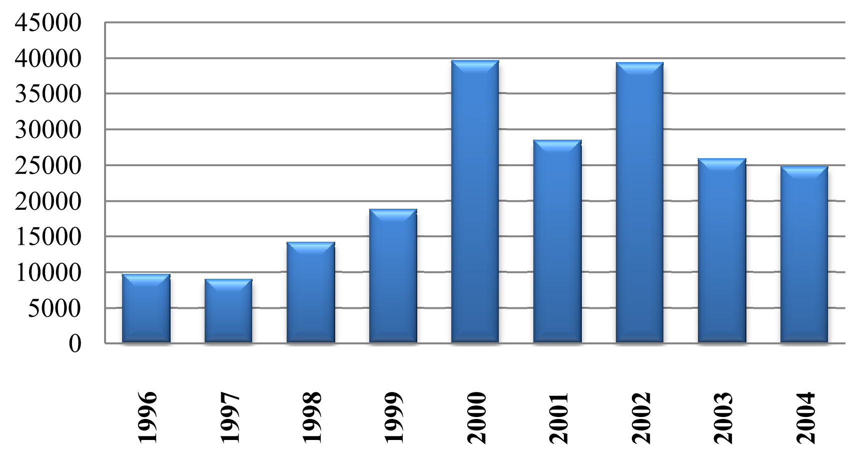
Figure 6: Spain's Per Capita Income Covergence (EU-15=100)



Source: Eurostat

As it is shown in figure 6, if the EU-15 average is fixed to 100, the Spanish per capita income converged from 79.3 in 1995 to 84.1 in 2000 and to almost 90 in 2004, the year that Conservative government left the office. In the same period, the general government budget deficit was reduced from -6.3% to -0.3% and general government debt decreased to 46% of GDP (it was 63.9% in 1995).[43]

Figure 7: FDI Flow in Spain (million dollars)



Source: UNCTAD

[43] Thanks to the high growth rates and political stability, the Iberian country became one of the focal points of immigrants. Between 2000 and 2008, the immigrants increased from 1.1 million to 5.2 million (12% of the total population), they created the half of Spain's total growth (Chislett 2008b: 11-14).

In addition to macroeconomic recovery, Spain also turned out to be one of the major foreign investment recipient countries in terms of FDI mainly thanks to its commitment to Maastricht criteria. As a result of Aznar's determinative economic policies Spain became a member of the EMU in the first wave. The elimination of exchange rate and currency risks and the consolidation of macroeconomic fundamentals of Spanish economy underpinned the image of the country as a 'stable investment hub' for foreigners. Astonishingly, Spain attracted $209.2 billion FDI inflows between 1996 and 2004 (see figure 7).

In summary, by the end of his second term in office, Aznar "was credited with Spain's successful integration into the EMU, macroeconomic discipline, and a long period of economic expansion that contributed to closing gap with the country's richer European neighbors" (Royo, 2009b: 437). Spain, in this era, had become the world's eighth largest economy, ninth largest investor abroad and eight largest recipient of foreign investment (Kennedy, 2007: 187). Under these conditions, the PP was the strongest candidate on the March 14, 2004 elections. According to the polls, PP was heading the political race ahead of its major political rival, PSOE (EIU, 2008: 8). Yet, the tragic terrorist attacks (the infamous 'Madrid Train Bombings') just three days before the elections and the PP's response to these attacks dramatically changed the political landscape. On March 11, 2004, a series of coordinated bombings against the commuter train system in Madrid killed 191 people and wounded 1,800. The government immediately fingered out the ETA terrorists as the main responsible of the terrorist investigation. It was though by the PP leaders that the ETA link would create a more suitable environment for PP's re-election, while an Al-Qaeda link would have resulted in the opposite effect due to Aznar's 'die-hard pro-American stance' in Iraq War in 2003. The PP government's style of handling the crisis is argued to result in the striking electoral swing.[44]

> By blaming ETA and by seemingly failing to disclose crucial information about the possible link with Islamic terrorism, the government was perceived to be making a deliberate attempt to subvert the elections. Its efforts to turn attention away from the possible involvement of Al-Qaeda

[44] Not every researcher agrees that the bombings dramatically altered the election results. For conflicting interpretations of the 2004 elections, see Biezen (2005).

> produced a growing sense of public dissatisfaction and contributed to the elections in part being a protest by the people against the government's handling of the terrorist event. A post-election survey showed that a majority of 51.6 per cent of the population felt that the Aznar government had not responded adequately to the assault, with 80.8 per cent of them believing it had manipulated or withheld information and 28.3 per cent that it had used the attacks for electoral purposes (Biezen, 2005: 104).

As a result, PP's strategy backfired and the Socialists won the 42.6% of total votes (164 seats), while the Conservatives' votes reduced to 38.3% (148 seats). By these results, the Socialists succeeded to dethrone the ruling Conservatives (Tusell, 2007: 453-454; EIU, 2008: 5).

3.1.2. The Economic Policy of Zapatero Government

Though the Spanish political scene experienced a dramatic turn from Conservatives to Socialists with the victory of José Luis Rodríguez Zapatero in March 2004, the economic policies of PP were not subjected to fundamental changes in the post-2004 period (Kennedy, 2007: 191).[45] The Socialists remained loyal to the programmatic consensus of fiscal consolidation and continued to pursue the aggressive 'national champions' policy (EIU, 2008: 19). In this context, a striking characteristic of the Socialist era in terms of finance capital is the Spanish multinationals' penetration into the European markets after consolidating their position in Latin America. This represents the other side of continuity in Spanish state's 'pro-active' nature, since the

[45] The Zapatero government implemented quite different policies than the PP government in terms of foreign policy and the domestic politics. Some commentators, even, coined the Zapatero era as a 'second transition' in contemporary Spanish politics (Encarnación, 2008; Mathieson, 2007; Field, 2009). In the foreign policy area, Zapatero followed a decisive anti-American stance and withdrew Spanish troops from the Iraq territories (Powell, 2010; Field, 2009: 379). On the social realm, Zapatero set out his goal as modernizing Spain on progressive values including abortion and same sex marriages. He turned out to be the fervent supporter of women's rights, he appointed women to half the posts in his cabinet and to the deputy prime ministry. As a result, Spain became the only country in which government was composed of 50-50 gender balance (Mathieson 2007: 27). Zapatero also kicked-off a public debate on the bad memories of Spain's divisive past, namely the Spanish Civil War (1936-1939) and Franco dictatorship (1939-1975), the areas "that were left off the political agenda during Spain's transition to democracy in an effort to let bygones be bygones and thereby secure the transition to democracy" in the post-Franco period (Field 2009: 386). Regarding the regions policy, Zapatero expanded the autonomy in 6 of Spain's 17 regions.

mutually reinforcing cooperation between the state and the industrial-finance capital prolonged without any significant change.

In fact, when Zapatero came to power, he inherited a robust economy growing rapidly (Royo, 2009a). The domestic demand was constantly rising mainly thanks to the massive immigration inflow and the successful employment creation. Apart from a modest inflation problem (2.4% at the time), Madrid was proud of hitting the Growth and Stability Pact criteria targets. The budget was giving surplus; the government debt was far from being 'unmanageable'; and unemployment figures were in constant decline. Just in 2004-2007 period, Zapatero government succeeded to create 1.8 million new jobs, as a result of which the unemployment rate was reduced to 8.1% (Mathieson, 2007: 19-20).

However, there were also structural fragilities and imbalances in the Spanish economy, because the growth in the second term of Aznar government was based on high domestic consumption and household debt due to low real interest rates, massive immigration flows[46] and ample credit opportunities (Royo, 2009a, 2009b). There were mainly two drivers of economic growth during the early 2000s. First, the construction sector and housing prices boomed dramatically. 400,000 new houses were built just around Madrid and even thought the housing stock doubled, the house prices rose by 150% between 2000 and 2008. In 2006, Spain built a record 760,000 houses, which is in fact more than the combined total of Germany, Italy and France (EIU, 2008: 22). Second, the domestic demand and consumption increased considerably. The family indebtedness increased more than 115% of disposable income and above the 70% of Spanish families devoted more than 40% of their income to the payment of mortgage credits on their housing during the same period (Guitart, 2008: 4).

[46] Population of Spain grew more than 6.2 million between 1998 and 2007, almost entirely as a result of the influx of immigrants (Chislett, 2008b: 11; Chislett, 2010: 5). Spain has 5.2 million immigrants, composing 12% of total population. Thanks to the influx of the immigrants, it is estimated that "more than 50 languages are now spoken on the playgrounds of Spanish schools" (Chislett, 2008b: 12). Not surprisingly, the immigration policy has become one of the hotly debated issues in Spain. The previously positive attitudes towards immigrants started to create tensions within the society as the economic crisis curtailed employment opportunities and social benefits (Mathieson, 2007: 25).

As a matter of fact, in terms of global political economy structure, Aznar's second and Zapatero's first term in office coincide with the expansion phase of global economy. In this phase, the economic activity in the world accelerated dramatically due to the expansionist monetary and fiscal policies in the advanced states (flag-shipped by the US), the spectacular rise in energy prices and the 'savings glut' in emerging markets.[47] As a result, ample liquidity conditions boosted the economic activity at the global scale (Belke and Gros, 2010).[48] Both the Spanish economy and the Spanish multinationals benefited from the combination of 'pro-active' state policies and extraordinary global liquidity conditions in this term. Having taken this global juncture into consideration, the following part will aim to depict the emergence of 'new Spanish armada' and try to reveal the state's role in the process.

3.2. The Rise of Spanish Finance Capital: The 'New Spanish Armada'

Aznar's one of the most ambitious aims was to create 'national champions', the multinationals capable of competing abroad and contributing to international visibility of Spain as a word-power. In this context, Spanish governments actively backed the Spanish companies to merge and consolidate at home and to invest in abroad. In this regard, the banking capital constituted the first pillar of 'national champions' policy. Accordingly, the four biggest banks in Spain merged into two giants in the late 1990s. State-owned Argenteria was sold to Banco Bilbao Vizcaya (BBV) to create *Banco Bilbao Vizcaya Argenteria* (BBVA) and Banco Santander merged with Banco

[47] The expansion phase of global economy broadly covers the 2002-2007 period. After the bust of the 'technology bubble' in the early 2000s and the following 9/11 terrorist attacks in 2001, the economic decision-makers in the US quickly intervened in the global markets to keep the world economy on track. At first, the American Federal Reserve Bank followed a 'loose' monetary policy by cutting interest rates to 1% in mid-2003 (the lowest level over the last fifty years) in order to provide liquidity into the system. Moreover, the Bush administration underpinned the expansionist monetary policy with an expansionist fiscal policy for economic and political reasons. Once the Americans were followed by the central banks and governments of other developed countries, *inter alia*, the world witnessed a historic level of global liquidity in this phase (Özel, 2008).

[48] The global economy, however, plunged into a serious financial crisis in September 2008 with the collapse of Lehman Brothers (Krugman, 2008; Brasset, Rethel and Watson, 2010). The Spanish economy, due to the abovementioned structural weaknesses, wobbled inescapably. In the conclusion part, the repercussions of the global financial crisis on Spanish economy will be discussed in further detail.

Central Hispano (BCH) to create *Banco Santander Central Hispano* (BSCH) in 1999.

The two banking giants (BBVA and BSCH) were, then, encouraged by the government to acquire shares in the newly privatized industrial state organizations. As a result, they became active players in the oil, telecommunications, construction, media, real estate and natural gas sectors (Tekinbaş, 2009: 89) and "by 2003, several of Spanish firms had become bigger than many of their once threatening European rivals" (Guillén, 2005: 71). Apart from that, the state actively pushed the newly emerging Spanish multinationals to invest in Latin American and European markets. The main motivation of the government was to benefit from 'national champions' *en route* to strengthen its hand on the political and foreign policy issues. The first target to materialize this aim, in this context, was the Latin American markets. In the following part, the investments of Spanish multinationals in Latin American markets will be revealed.

3.2.1. The Consolidation in Latin American Markets

Latin America has become the first area for Spanish multinationals to challenge their competitors. Both the economic factors and the political vision of the governments set the Latin market apart from the others during the late 1990s and 2000s. There were several political economy factors for this choice. On the economic side of the story, two reasons came to the fore. First, the Spanish firms understood that liberalization within the context of globalization and European integration was inescapable. Under these circumstances going international and exploiting profit opportunities in the Latin American markets seemed the best way for sustainable internationalization. Second, the high growth rates and real welfare convergence of Spanish economy with those of the EU members resulted in the saturation of domestic market. Hence, as Guillén (2005: 72) underscores, "Spanish firms knew that foreign expansion was the best way to ensure not only profit growth but also sales growth." Unsurprisingly, the 'the path of least resistance', Latin America, became the main destination for

Spanish firms (Toral, 2006; Bátiz-Lazo, Mendialdua and Zabalandikoetxea, 2007; Chislett, 2003).

There were also political and cultural motivations for Latin American expansion. First of all, Spain shares a common history and similar culture with the Latin American countries, most of which speak the same language. The managers of Spanish companies found a very large room to maneuver in the continent in comparison to other foreign investors. Second, the political liberalization and privatization in Latin American countries coincided with Spanish firms' decision to go international. The main countries in the region suffered from 'lost decades' during the 1980s, and had veered towards liberalization mainly due to the political reasons (Santiso, 2003: 297; Bátiz-Lazo, Mendialdua and Zabalandikoetxea, 2007: 9). Argentina, Peru, Colombia, Venezuela and Chile, for example, decided to bandwagon to the liberalization train in early 1990s. The major economies on the continent, Mexico and Brazil, joined the band in mid-1990s (Guillén, 2005: 72). As a result, the Latin American market turned into an area full of opportunities and risks as well. The Spanish firms, mainly thanks to their own privatization experiences and cultural similarities, took advantage of the situation and saw the opportunities at a time when many other investors had concerns due to the massive instability and uncertainty in the region (Chislett, 2003).

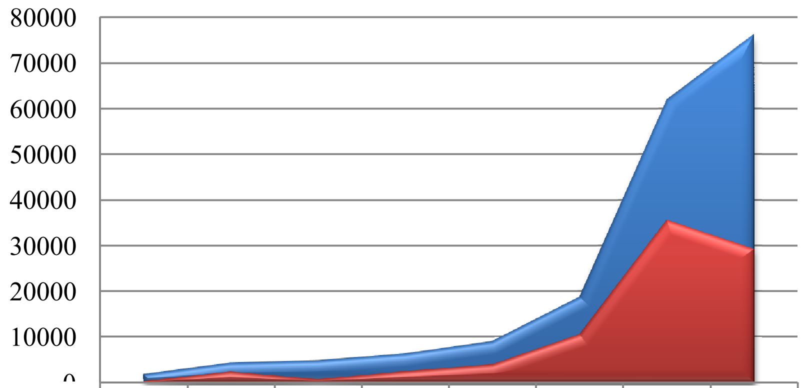
As a combination of the push and pull factors, Spain invested in the Latin market mainly in two waves. In the first wave, 1993-2000, Latin America accounted for 47% of total Spanish outward foreign direct investment with an average of €10.7 billion annually (see figure 8).[49] By the turn of the century, the largest seven Spanish 'national champions' had assets worth $283 billion and 128 million customers in Latin America (Toral, 2006: 8).[50] Spanish investments were directed towards different countries and different sectors. For example, Spanish firms concluded 87 transactions in Argentina, 72 transactions in Brazil, 50 transactions in Mexico, 44 transac-

[49] The stock of Spanish FDI abroad increased from $1.9 billion in 1980 to $15.7 billion in 1990 and $160.2 billion in 2000 (Toral, 2006: 6). As the figures demonstrate Spain's international economic presence increased dramatically during the 1990s.

[50] These companies are Telefónica, BBVA, BSCH, Endesa, Iberdrola, Unión Fenosa, and Repsol-YPF.

tions in Chile and 84 transactions in other 13 Latin American countries during the 1990s (Bátiz-Lazo, Mendialdua and Zabalandikoetxea, 2007: 7). Among the areas invested in this period, the financial services with 41% and the utilities sectors (namely the communications and transportation) with 36% of total investments, received the lion share (Bátiz-Lazo, Mendialdua and Zabalandikoetxea, 2007: 9-10).

Figure 8: Spanish FDI Outflow and Latin America's Share (1993-2000, million euros)



Source: UNCTAD

	1993	1994	1995	1996	1997	1998	1999	2000
Total FDI Outflow	1893	4416	4949	6418	9121	18796	61848	76181
Latin American Share	358	2476	805	2557	4068	10604	35504	29145

In the second wave, 2001-2009, the Spanish multinationals emerged as the 'new Spanish armada' in the region. On the banking sector, both Santander and BBVA became the biggest players in a very short time span. Between 1997 and 2002, BBVA made 34 major acquisitions and spent $7.8 billion, whereas Santander poured $12.3 billion to buy 27 banks (Bátiz-Lazo et. al., 2003). Due to the dizzying acquisition rush[51] in the first decade of 21st century, the Spanish 'armada' had positioned as the biggest actor in Latin America. For example, up to 2009, Santander opened more than 6,000 branches in the region and employed more than 96,000 people (Santander, 2009: 18-20). As of the end of 2008, it succeeded to manage €169.1 billion customer funds in total (see table 2).

[51] Since it is neither possible nor necessary to touch upon every Latin American acquisition of BBVA and Santander, this chapter suffices to give ultimate figures and to make some illuminating comparisons.

Table 2: Santander's Presence in Latin America

Branches (number)	6,089
Employees (number)	96,405
Loans (€ million)	92,684
Managed Customer Funds (€ million)	169,186
Attributable Profits (€ million)	2,945
Source: Santander Annual Report, 2008	

The BBVA was another financial company invested more than $8 billion between 2004 and 2008 in Latin America. It controls 10% of deposits in Latin American market and 24% of pension funds excluding Mexico. It has become the leading banking group in many Latin American countries in terms of deposits, loans, and pensions. For example, BBVA controls the 30% of loans in Mexico, 30% of pensions in Chile, and about 20% of deposits in Perú. The following table tabulates the details of BBVA's Latin American presence in 2009.

Table 3: BBVA's Presence of Latin America (2009)

	Deposits		**Loans**		**Pensions**	
	Share (%)	Ranking	Share (%)	Ranking	Share (%)	Ranking
Spain	8.5	2^{nd}	10.5	2^{nd}	18.9	1^{st}
Argentina	8.9	2^{nd}	7.2	3^{rd}	---	---
Chile	6.9	4^{th}	7.6	4^{th}	30.5	1^{st}
Colombia	10.2	4^{th}	9.6	4^{th}	16.4	3^{rd}
Mexico	28.2	1^{st}	30.1	1^{st}	15.9	2^{nd}
Perú	21.9	2^{nd}	23.7	2^{nd}	23.6	32^{nd}
Venezuela	9.6	4^{th}	11.3	3^{rd}	---	---
Source: BBVA Database, www.inversores.bbva.com.						

In summary, the Spanish finance capital had dominated the Latin American market partially thanks to the 'pro-active' policies of Spanish governments in the period between 1996 and 2009. The political economy of Spanish state's 'pro-active' policies and the ways in which these policies helped the Spanish finance capital to internationalize will be the main theme of the final part of this chapter. Yet, before that, the geographical spill-over effect of Latin American expansion into the European and US markets will be elaborated in the next part.

3.2.2. Diversification toward Europe and the US Markets

After consolidating its position in Latin America, the Spanish finance capital started to seek new markets in other parts of the world in order to diversify its portfolio. In this sense, it was both a necessity and ambition to penetrate into the European and US markets. It was a necessity, because, the Latin American markets were amongst the most unstable and unpredictable places in the world. Hence, it was crucial for Spanish firms to 'hedge' their risks with other geographies. It was at the same time an ambition, because, the European and the US markets were the 'premier league' for Spanish firms and Spanish state. Being able to compete in this league was rightly regarded as positioning Spain as a world power in the hierarchy of interstate system (Tayfur, 2003: 220-221; Chislett, 2003).

Santander is the first financial multinational which consolidate its position in European market. In 2004, Santander acquired UK's Abbey for €12.6 billion, the second-largest bank in the UK in mortgage market with 10.5% market share. The transaction was "the largest cross-border financial acquisition ever carried out in Europe" and made Santander one of the biggest global players in the global financial market (Chislett, 2008b: 171). Abbey's contribution to Santander Group was gargantuan because it increased Santander's total assets by €196.14 billion, added 730 new branches, about 18 million fresh customers and 24,361 more employees to the group's portfolio (see table 4).

Table 4: Abbey's Contribution to Santander Group

Main Aggregations	Contribution by Abbey	% of Total Group
Total Assets (€ billion)	196.14	34.1
Customer Loans (€ billion)	137.71	40.2
Managed Customer Funds (€ billion)	172.43	32.0
Number of Employees	24,361	19.3
Number of Customers (million)	18	28.6
Number of Branches	730	7.3
Source: (Chislett: 2008: 172)		

BBVA is the other Spanish financial multinational which has investments in Europe. Yet, the European portfolio of BBVA is quite small vis-à-vis Santander. Instead, BBVA is active in Portugal and does not have any banks in other European states. As a matter of fact, the expansion and diversification strategy of BBVA is more focused on the US market, the country of which BBVA has started to pursue an active penetration strategy since the beginning of 2000s. After consolidating its position in Latin American markets, BBVA turned its face towards the Spanish speaking Hispanics in the US and aimed to position itself as a financial bridge and intermediary for remittance transfers, especially between Mexico and US.[52] BBVA entered the US market in 2004 with a modest investment, and acquired Valley Bank of California for $16.7 million. In its second rush, BBVA directed its concentration to Texas, and paid $850 million to Laredo Nacional Bancshares (LNB), which has 49 branches and more than 100,000 customers (Chislett, 2008b: 181). Just one year after the LNB takeover, BBVA acquired Texas Regional Banchares and State National Banchares by paying a relatively high amount of money ($2.6 billion). Having completed this acquisition, BBVA has become the biggest regional banking group in Texas. BBVA continued its

[52] For a detailed and provocative analysis of the Mexican (Hispanic) immigration to the US, see Huntington (2004).

penetration strategy with a bold step in 2007, when it acquired Compass Banchares, for $6.7 billion.[53]

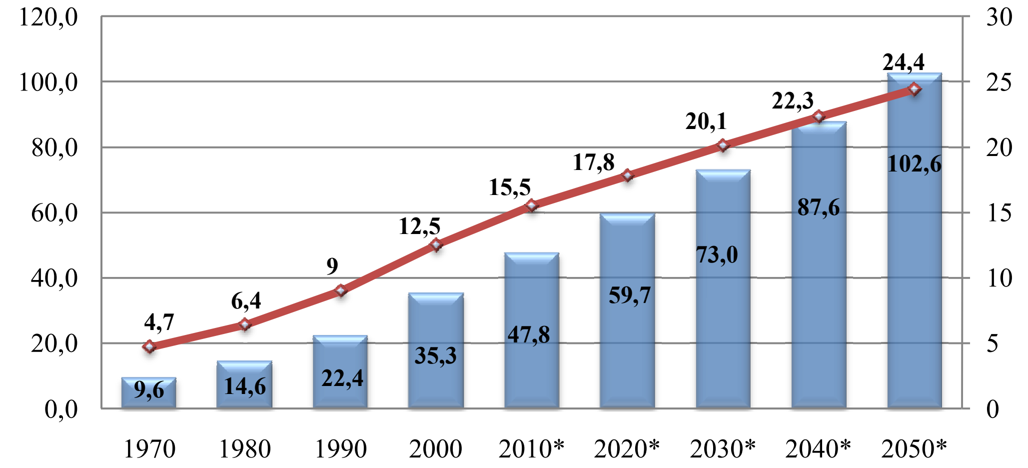
The Spanish non-financials followed the suit and entered European markets in 2000s. Ferrovial, leading Spanish construction and infrastructure company, bought the British Airports Authority (BAA); Telefónica acquired the largest British mobile company O_2 for €26 billion; Agbar, Spanish water and waste utility company, bought Bristol Water; and Iberdrola acquired Scottish Power (Chislett, 2008b: 169). The acquisitions were quite huge in the sense that just Telefónica and Ferrovial paid $53.5 billion to their British counterparts, which corresponds to 33.4% of the UK's FDI inflows in 2006 (Chislett, 2008b: 169). Apart from Britain, Spanish multinationals also invested in the continental European countries, albeit in smaller amounts. Telefónica, for instance, bought the 69.5% of the Czech Republic's Czesky Telecom (Chislett, 2008b: 171).[54]

Apart from the European markets, the US, too, had become of vital importance for the Spanish banking industry not only for the diversification of foreign investments, but also for benefiting from the booming Hispanic population in the world's biggest economy. According to official figures, the number of Hispanics in the US surpassed 44 million as of 2006 and is projected to exceed one hundred million in 2050; a figure corresponds to a quarter of overall population (see figure 9). From this point of view, the Spanish companies invested in the US market heavily in order to benefit from the demographic projections of the world's leading economy.

[53] Compass Banchares was a franchise at that time operating Florida, Colorado, Texas, New Mexico, Arizona and Alabama with a network of 417 branches.

[54] For a detailed account of the Spanish firms' acquisitions in the European markets, see Chislett (2008b: 169-175).

Figure 9: Hispanic Population in the US



Source: US Census Bureau
* Projections

To sum up the argument so far, Spanish financial 'giants' consolidated their position in the 'premier league' of global financial system by acquiring the leading European (mainly British) and American corporations in the first decade of the 21st century. They also played a 'demonstrator' role for the Spanish industrial firms in these countries via favorable credit policies and organic managerial links (Toral, 2006: 12). What was the role of the Spanish state in internationalizing Spanish 'national champions' in a relatively short time span? The rest of the chapter will be devoted to search for an answer to this question.

3.3. The Consolidation of 'Pro-active' Spanish State: 'Protectionist Internationalization'

During the internationalization of finance capital, the Spanish governments played a more 'pro-active' role than the late-1980s. Most probably, without the state policy, the consolidation and internationalization of the Spanish firms would not have been possible. The Spanish governments' ulterior aim of creating 'national champions' at the international sphere is crucial in this respect.[55]

It is fair to argue that the state in Spain indirectly and directly contributed to the consolidation of Spanish multinationals in the 1996-2009 period. The overall economic policies of Aznar (1996-2004) and Zapatero (2004-2009) governments, which were discussed in the first part of the chapter, created a solid background for the emergence and consolidation of Spanish 'giants'. Moreover, the Spanish state directly intervened into the market and shaped the mergers and acquisitions via 'pro-active' policies in the same period. In this part of the study, the means and results of direct state policies will be assessed in terms of 'pro-active' states' three basic characteristics, which are (1) transformative role, (2) regulatory role and (3) distributive role.

Regarding the first characteristic, the Spanish governments played important roles by implementing successful intervention mechanisms. The role of the direct state intervention can be classified under two major phases. The first phase comprises the 'consolidation strategy' at home and the second phase is the 'promotion strategy' abroad.

In the first phase, *consolidation strategy at home*, the Spanish state pursued a very active strategy to create large private companies that were hitherto small and fragmented state-owned firms. In order to face the challenges of European firms in the age of neoliberal globalization, the Spanish governments realized that they had no choices but to liberalize their economy and welcome the foreign investors. This aim is combined with European integration ambition due to economic, political and geostrategic reasons. Yet, in order not to allow the evaporation of 'Spanishness' of its financial and non-financial firms, the government followed the consolidation of small state-owned firms to create large companies and protected them from foreign

[55] During the internationalization of Spanish firms, the 'firm level' strategies pursued by the Spanish companies to initiate and expand operations in Latin America regarding the capital budgeting, risk management techniques, human resources management are also quite important in determining their ultimate success. Since the main research theme in this study is the role of state strategies, the 'firm level' determinants are not investigated in detail. Yet, it does not mean that Spanish firms' managerial success do not have any significant role in the process. On the contrary, the Spanish firms did a lot to position themselves in Latin American market better than their competitors. For details of the successful 'firm level' strategies implemented by the Spanish firms, see Curci and Cardoza (2009) and Toral (2006: 11-13).

competition before they were privatized. In the public utilities industry, for example, Endesa, Unión Fenosa and Iberdrola controlled the 95% of total market share in Spain by 1996 as a result of government's consolidation policies. Repsol was cradled in its downstream oil operations from foreign competition up until the mid-1990s. In the same vein, the Spanish telecommunication giant, Telefónica did not "face significant competition in its domestic market until 1998" (Toral, 2008: 540).

Apart from consolidating the state owned firms and protecting them from outside competition, the state also pursued a 'pro-active' strategy during the privatization of these firms. Starting from the early 1980s, as a response to becoming a member of the EC and adoption of Single European Act in 1986, the subsequent Gonzales and the Aznar governments, prepared the state-owned firms for liberalization by encouraging and financially supporting them to reorganize their institutional structure, to reduce their debt and to improve their human capital (Toral, 2008: 541). Moreover, state reserved its rights to veto core decisions even after the privatization of those firms. In 1995, for instance, the government passed a law of 'golden shares' (Law 5/1995 of 23 March), which underlined the "legal framework for disposal of publicly-owned holdings in certain companies." Accordingly, the 'golden share' principle was used to prevent eventual takeovers of leading privatized firms by the foreigners (Arocena, 2004: 8), since "the government –through the golden share mechanism– the government-appointed management and the Spanish banks' representatives control in practice the boards of the major Spanish groups Telefónica, Endesa, Repsol, and their subsidiaries" (Etchemendy, 2004: 639) . In addition, the state enacted a decree, 'prior administrative approval', for the private firms to consult to government before making "certain strategic decisions or for direct or indirect acquisition of a sizeable proportion of shares in previously state-owned companies" (Guillén, 2005: 70). In order to consolidate the 'Spanishness' of its companies, the state did not liberalize the public utilities up to the point that these companies have become competitive enough at home and abroad. For example, the Aznar government resisted to the demands of the EU to liberalize energy and telecommunications industries. Telefónica was sheltered from foreign competition up until 1998 and Endesa was not allowed to be acquired by German power and gas giant E.ON (Mathieson, 2007: 21). Instead, the Spanish government encouraged another bid by a consortium formed by Acciona, a Spanish construction firm and Italy's Enel (Toral, 2008: 541). By doing so, Spanish government did not allow Endesa to be completely acquired by a foreign firm.

In the second phase of the internationalization of Spanish firms, the Spanish state's role, *promotion strategy abroad,* is also crucial. The state encouraged the Spanish firms to invest in abroad via different instruments like direct financial transfers, favorable tax treatments and diplomatic support at bilateral and supranational platforms. As part of state's promotion strategy, selective credit schemes, direct cash injections and tax relief advantages were used extensively. For example, Telefónica received $1 billion government support in order to acquire Brazil's Telesp in 1997. Similarly, the state offered special tax law that enabled the domestic firms to compensate 30% of their goodwill costs in any foreign purchase (Toral, 2008: 541). The state also created the *Instituto de Comercio Exterior* (ICEX) to design and implement new policies towards Spanish SMEs investing abroad. Accordingly, ICEX provided new funds to the firms, designed courses, seminars, and workshops in which experts informed the Spanish firms regarding the legal, economic, cultural and political conditions in the countries that are targeted by investors (Toral: 2006: 14).

Diplomacy is the other channel through which the state helped internationalization of Spanish 'national champions.' The Spanish foreign mission and top-politicians followed a very active 'mediation' strategy in the diplomacy corridors of the countries in which Spanish corporations have extensive market opportunities. The very top-figures of the Spanish political arena had taken active part in concluding deals between 'national champions' and foreign firms. For instance, King Juan Carlos intensively lobbied when Spanish oil giant Repsol acquired Argentina's YPF for $14.7 billion dollars (Youngs, 2000: 112). Similarly, Spain's Iberia's acquisition of Argentinean airlines could be concluded after Spanish Prime Minister Gonzales agreed with Argentinean President Carlos Menem (Tayfur, 2003: 202).

In the Latin American case, the Spanish governments' diplomatic efforts were quite successful in the sense that these 'pro-active' policies prepared the legal and political background for the economic penetration of Spanish countries into the main Latin markets. During the 1990-1995, especially 1994-1995, Spain signed too many bilateral agreements with different Latin American states (Toral, 2008: 542) that laid the legal and institutional backdrop for Spanish penetration. As part of Spain's foreign policy aims, Spanish state lobbied hard to position itself as a 'bridge' between Latin America and Europe in order to create an Ibero-American sphere of influence vis-à-vis the EU (Baklanoff, 1996). With this ultimate aim in mind, Spanish multinationals invested in the region under the protectorate and 'diplomatic umbrella' of the government. The other striking aspect of the mutual interaction between Spanish diplomacy and economy can be detected on the official development assistance. For example, the PSOE government pledged itself to double its official development aid by 2008. Accordingly, Spain's development aid rose from €1.99 billion in 2004 to €5.5 in 2008, 40% of which was earmarked to Latin America (Powell, 2010: 533).

In terms of the second characteristic of 'pro-active' state, the regulatory role, Spanish state also established or facilitated the construction of organic links between financial multinationals and non-financial corporations. The two largest Spanish banks, BBVA and Banco Santander have acquired stocks in non-financial firms (what is called the '*núcleo duro*' (hard core)) with the encouragement of government so as to become the largest stockholders in other major Spanish companies. For instance, BBVA was part of the *núcleo duro* of Repsol, Telefónica, Gas Natural, Iberdrola and Endesa; BS and BCH controlled Union Fenora's stocks (Toral, 2008: 530, 541; Grant and Kirchmaier, 2004: 28-31). By doing so, the Spanish banks acted as the active supporter of non-financial Spanish corporations' operations abroad. As explained in the previous part, most of the Spanish industrial companies followed the expansion of banking sector toward Latin America and Europe. In other words, the Spanish banks created a 'demonstration effect' for the other domestic firms from technological, managerial and financial points of view (Inciarte, 2007: 75).[56] As Inciarte, Vice President of the Santander Group, underlines;

[56] 'Demonstration effect' or 'driver effect' is used in management literature in order to refer to the ability of some previously internationalized corporations to attract suppliers, customers and competitors from their own country on to the new markets. Thus, foreign investment by the first company generates a 'multiplier effect' on the investments and the exports of the country in the medium and long term. 'Demonstration effect' also refers to "the fact that investment takes place under uncertainty and that the presence of other (home or host-country) firms in a given market may be taken as a positive signal for new entrants to enter that market" (Buch and Lipponer, 2004: 5). The 'uncertainty fac-

> The financial system and, specifically, the banking industry have played a decisive role in the internationalization process of Spanish companies. On the one hand, the large Spanish banking groups have been pioneers and main players in this process, through their ambitious international expansion strategies. Their presence in a growing number of countries has opened markets to other large Spanish companies via what could be understood as a demonstration effect. On the other hand, the modernization and sophistication of the Spanish financial system has made the internationalization of many other companies possible. In this regard, it is necessary to underscore how the solidity of our financial system has contributed to the stability, development and growth of the Spanish economy, thus creating a suitable framework to make Spain an important recipient and source of foreign direct investment (Inciarte, 2007: 75).

The important point from the aim of the present study is the regulatory role of the state in this process; because, it was the 'pro-active' state policies which enabled the establishment of the organic institutional links between the financial and industrial sectors and/or consolidation of the previously established relationships. The ulterior motive for the Spanish state was not only economic. On the contrary, the ambition was to position Spain as a country capable of raising its voice among the core members of the EU. What the politicians and bureaucrats understood was the political economy fundamentals of their foreign policy desires regarding the Europe, Mediterranean region and the Americas. As it was explained in the introduction part, the change in the market/state and wealth/power nexus in domestic affairs strongly influence the foreign policy priorities and stature of the country in question. Hence the state encouraged the change in domestic political economy structure via properly regulated financial and industrial policies. In turn, the finance capital started to influence the foreign policy priorities of Spanish state in line with their economic interests. In other words, the 'new Spanish conquistadors' played a central role in Spain's international political stature. This is mostly evident in the Latin American case. The Spanish firms' increasing influence in Latin America has significantly contributed to Spain's image on the region. This aspect of 'new Spanish armada' is underlined by Guillén (2005: 172);

tor' is crucially important in one of the most instable regions, Latin America, that the Spanish multinationals take lion share.

> In Latin America the image of Spain is now inextricably associated with the presence of Spanish firms. In terms of image, if not diplomacy, Spanish multinationals have become Spain's most important ambassadors.

In the final analysis, a two-sided interaction and a complex interdependence was institutionalized in the political economy of Spanish foreign policy-making in a relatively long historical period. The historical interaction, in turn, shaped the foreign-policy making agenda in Spain. The results of the regulated transformation of finance capital had found its repercussions on the foreign policy agenda of the country. As a matter of fact, Spanish foreign policy has always been a very sensitive and complex issue for decision-making elite (Gillespie, 2000). It is sensitive because it is seen as part of Spanish identity and linked to the Europeanness of Spain. As it is revealed in the previous chapter, the ruling elite abandoned "Spain is different" motto and started to implement policies that put special emphasis on the construction of a Spanish identity as part of the broader "European family" in the post-Franco period.[57] As a matter of fact, Spain, as opposed to the traditional foreign policy orientation, developed very close relations with the US during the Aznar era, especially after 9/11 terrorist attacks and Spain supported the US' Iraq intervention in 2003 (Gillespie, 2007: 39-42).[58]

Spanish foreign policy is at the same time a complex issue for decision-making elite because of the uniqueness of Spanish geopolitics in world affairs (Guillén, 2005: 160-161). Spain is a country which develops complex, and somehow problematic relations, with its neighbors simultaneously. In this context, the country has deep economic and political relations with the EU; it has special relationship with Latin

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[57] Albeit, becoming a 'core state' in the EU is a constant aim for all Spanish governments, the Socialists and Conservatives approach the EU from different perspectives. The Socialists link the national interests of Spain with those of the European values in broader terms and take more active part in establishing a more consolidated European foreign policy and security identities. The Socialists also play a constructive role in the formation of citizenship rights and "European citizenship" concepts. On the other hand, Conservatives regard the European integration more of an economic issue than a social and political project. In this context, taking part of a wider European market and achieving the national aims of Spain in terms of economic prosperity become the basic political priority (Toreblanca, 2001).

[58] In fact, Aznar's US policy refers to a clear departure of traditional Spanish foreign policy. In Aznar's term in office, the EU and Euro-Mediterranean Partnership's importance in Spanish foreign policy agenda downgraded significantly. For details, see Gillespie (2007), Barbé and iLecha (2005).

America, an area of which is regarded as its "cultural backyard" by the Spanish elites; Madrid has competing aims with France on Africa, whereas it has to co-operate with Paris in fighting against ETA terrorism. Moreover Spain has sensitive relations with Morocco, especially regarding the unregulated migration from the un-developed Middle Eastern and African countries and unresolved border disputes. Finally, it has profound relations with the United States in a wide spectrum ranging from defense and security areas to financial and geopolitical issues on Latin America.

Even a bird's eye-view to Spanish foreign policy reveals the complexity of the situation. Yet, in order to examine the picture in its entirety, one has to place the Spanish finance capital into the equation and concentrate on the repercussions of state-business relations in the Spanish foreign policy. The Spanish multinational companies and the course of FDI figures have undeniable impacts of the international presence of Spanish state. Spain is now one of the leading economies in Europe and a net investor country. According the *World Investment Report 2009* figures, Spain ranks the 6th economy in the world in terms of FDI inflows.[59] For example, of the 50 leading financial institutions in the world, *Banco Santander* and *BBVA* ranked 20 and 34, respectively. Spanish non-financials Telefónica (12), Endesa (35) and Repsol (53) also secure a place among the top one hundred firms all around the world (Erro, Guillén and Bouza, 2009: 61-62).[60] In the *Transnationality Index* (TNI), which is calculated as the average of the foreign sales to total sales, foreign employment to total employment and foreign assets to total assets, Telefónica (with 69%), Repsol (with 55%) and Endesa (with 49%) position themselves at the top of the most transnationalized companies in the world (Chislett, 2008b: 10). In addition to the above-mentioned companies, there are relatively less known, but influential Spanish firms operating in infrastructure area. Ten of the world's one hundred largest transnational

[59] It was only surpassed by the US, France, China, UK, and Russia. Spain also ranks 7th in investment received just behind the US, France, UK, Hong Kong, Germany, and Netherlands.

[60] Endesa is no longer a Spanish company since it was 67% owned by Italian multinational company Enel in October 2007.

infrastructure companies are based in Spain (Chislett, 2008c: 10).[61] In the words of two scholars, this fact should be regarded as a "silent revolution" (Puig and Perez, 2009). The Spanish multinationals, in today's world, compete very strongly in a widely diversified scale and many of them occupy the 'commending heights' of global capitalism, as tabulated in table 5.

Table 5: The Spanish Multinationals with the Largest Global Market Positions

Company	**Industry**	**Global Market Position**
Ebro Puleva	Food Processing	1st producer of rice and 2nd of pasta
Grupo SOS	Food Processing	1st producer of olive oil
Chupa Chups	Food Processing	1st producer of lollipops and 2nd of candy
Viscofán	Food Processing	1st prod. artificial casings for the meat industry
Freixenet	Sparkling Wine	1st producer of sparkling wine
Travex	Textiles	1st producer of denim
Zara	Clothing	2nd most valuable clothing brand
Pronovias	Clothing	1st maker of bridal wear
Acerinox	Steel	3rd producer of stainless steel
Repsol-Gas Natural	Gas	3rd distributer of natural gas
Roca	Sanitary Equipment	1st maker of sanitary equipment
Grupo Antolín	Automobile Components	1st producer of interior linings
Zanini	Automobile Components	1st producer of wheel trims
Gamesa	Machinery	3rd manufacturer of wind turbines
Indo	Optical Equipment	3rd manufacturer of lenses
Mondragon	Diversified	1st worker-owned cooperative group
Grupo Ferrovial	Infrastructure	1st developer and manager of transport inf.
ACS	Infrastructure	1st private inf. management company
Acciona	Infrastructure	1st developer of wind farms
Iberdrola	Electricity	1st operator of wind farms

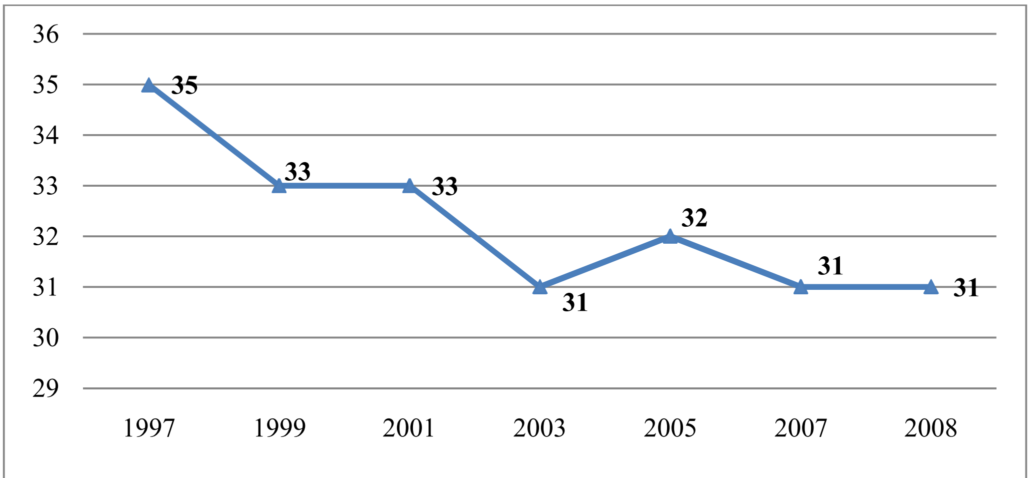
[61] These are 2006 figures and based on the magnitude of foreign assets of the corporations in question. The most important ones of Spanish companies are Vallehermoso, Acciona and Ferrovial.

Telefónica	Telecom	3rd telecom operator by total customers
Santander	Banking	4th bank by market capitalization
Prosegur	Security	3rd company by sales
Sol Meliá	Hotels	1st resort hotel chain by number of beds
Real Madrid	Sports	1st football club by revenue
Source: Chislett (2010a: 28)		

The international consolidation of Spanish multinationals underpinned the foreign policy stance of Spain in different regions. The Spanish political elite had benefited from the Spanish firms to transform Latin America into a sphere of influence. In Delage's words "Latin America is not just an opportunity for Spanish firms. It is the territory in which to show its aspirations; in fact, the only one that can turn Spain into a global power" (quoted in Guillén, 2005: 162). Actually, this proved to be true, since the dominant position in Latin America was used as an asset to become a more visible country in the European Union. For example, Spain pressurized hard to design the Barcelona process and "became a major architect" (Gillespie, 2000: 134; Guillén, 2005: 229-230). In a similar vein, Spain, mainly thanks to its rising profile in the EU, introduced the 'European citizenship' concept to be embodied into the Maastricht Treaty in 1993 (Powell, 2003) and succeeded to secure a seat on the first train to European Monetary Union in 1999.

In terms of the third characteristic of 'pro-active' state, distributive capacity, Spain also took important steps in major areas. The most notable development was the emergence of Spanish welfare state. Once "an underdeveloped Bismarckian welfare state, segmented by occupational categories and suffering from gaps in the protection net", Spain, "rationalized its welfare system" that is now comparable to other European nations (Guillén and Álvarez, 2004: 287-288). On two major fronts, the fiscal resources and the female employment, governments succeeded to achieve remarkable improvements. Spain's tax-revenue as percentage of its GDP increased from 27.5% in 1985 to almost 36% in 2005. Similarly, female employment rate reached to 53.2% in 2006, up from 30.7% in 1995 (Moreno, 2008: 6-8). In addition to these basic developments, the welfare characteristics of Spanish state further consolidated in other social policy areas. For example, the tax-funded, non-contributory benefits and services extended; social citizenship was enhanced in the fields of health care, social services for dependent people and the social inclusion practices improved qualitatively and quantitatively (Guillén and Álvarez, 2004: 297). As a result, the Spanish state performed a relative success in reducing the societal (see figure 10) and regional inequality (Moreno, 2008: 11).

Figure 10: Gini Coefficient in Spain



Source: Eurostat

One of the most important sources for the development of a social welfare state in Spain was the funds extended by the EU. Between 1986 and 2006, Spain received €84.4 billion on a cash basis. The Structural and Cohesion Funds amounted to €118 billion in the period in question, which actually refers to the largest solidarity operation in history of European integration (Chislett, 2008b: 67). The 'cohesion fund' proposal was in fact a very Spanish proposal and tailored to suit Spain's particular needs (Closa and Heywood, 2004: 188). The funds were properly allocated to the relevant fields by the Spanish governments. According to one calculation, in 1986, Spain had 773 km of dual-carriage motorways and in 2006, it increased to 6,267 km

(4 km out of every 10 km was financed by the EU). Similarly, in three lines high-speed trains the €36 of every €100 was invested by the EU (Chislett, 2008b: 67).[62]

All in all, it seems that the Spanish state played a very active role in internationalizing Spanish economy in the age of neoliberal globalization period. Thought Spain preferred the integrationist way with the global economy in this era, it is by no means materialized in the 'globalist orthodoxy' dictated by the International Financial Institutions. As a result, it is the argument of this study that the Spanish state succeeded to meet the basic criteria of a 'pro-active' state, thought with some reservations.[63] To better understand the Spanish case and to put it into a comparative political economy context, the following two chapters will be devoted to the Turkish case with the intention of understanding the ways in which Turkish finance capital had been integrated into global political economy with particular reference to the role of state strategies in the neoliberal globalization period.

[62] In fact, Spain very actively negotiated in the European summits to enlarge its share from the European structural and social policy pie.

[63] These reservations will be elaborated on the conclusion chapter of the study.

CHAPTER 4

THE TRANSFORMATION OF FINANCE CAPITAL IN TURKEY (1980-2001)

This chapter analyses the transformation of Turkish finance capital during the 1980-2001 period with particular reference to the role of Turkish state in the process. Yet, in order to shed some light on the political economy context in which Turkish finance capital emerged and consolidated, the historical and structural context should be taken into consideration at first. It is, in fact, the early republican periods that mainly determined the nature of 'state-market' relations up to the beginning of 1980s. When the Ottoman Empire collapsed and took its part in history, it left an economic ruin behind (Keyder, 2005; Kazgan, 2002: 13-37). Since the Ottoman's integration to the capitalist world economy in the 19th century was peripheral, the new Turkish Republic faced with enormous economic problems (Pamuk, 2005: 1-16; Pamuk, 2008: 266-300). Three major obstacles, in this context, came to the forefront. First one of them was the lack of domestic bourgeoisie. Given that the economic elite during the Ottoman era was overwhelmingly composed of the minorities that left (or forced to leave) the country during the First World War and after the establishment of Turkish Republic, creating a domestic bourgeoisie class via state initiative turned out to be the first hurdle (Boratav, 2005: 1-37). Second major obstacle was constructing infrastructure for 'self-sufficient Turkish industry.' As mentioned above, Ottomans' integration to the capitalist system was asymmetric and peripheral that means that there was no significant manufacturing industry and value added production in the country. As Tezel (2002: 103-104) underlines "if one takes 1923 borders as reference point, in the initial years of Turkish Republic, the domestic production was capable of supplying 10% of domestic demand in cotton, 40% in woolen, and 5% in silk products. The domestic supply-demand ratio was 20% in soap, 60% in wheat flour. There was no domestic production in consumption products like porcelain, glass, eating irons, and sugar. All of the capitals goods also were being imported." Moreover, the long and almost uninterrupted wars between 1912 and 1923 destroyed the entire infrastructure and educated (expert) human capital of the country. Finally, the third obstacle was to establish a rule based economic, political and legal relationship between state and finance capital (Buğra, 1994b).

In this context, in the first part, the planned period in Turkish economy and the emergence of Turkish finance capital will be analyzed with reference to *étatiste* state policies between 1960 and 1980. In the second part, Turkey's integration into neoliberal globalization period will be scrutinized in two separate sub-periods, which are 1980-1989 episode and the 1989-2001 episode according to the degree and nature of Turkey's neoliberal transformation. The conclusion part will aim to assess the role of state and try to understand whether the transformation of finance capital in this process was guided by 'pro-active' state policies or not.

4.1. The *Étatisme* and the Emergence of Turkish Finance Capital

As a result of the frustration regarding the liberal policies during the 1950s, Turkey turned her face to the domestic sources to establish a national industry.[64] The confidence to liberal economy, in this period, was significantly deteriorated parallel to the developments in world political economy; therefore, the private business-led growth strategy was set aside.[65] Instead, the state and technocrats had become the main actors in the economy (Keyder, 1987: 299). Accordingly, during the *étatiste* era between 1960 and 1980, five economic development plans were prepared to encourage domestic industry and promote domestic demand. Import substitution policies and strict capital control mechanisms became the main features of the period in question.

[64] From the mid-1940s, Turkish economy was started to be liberalized in a gradual phase. The liberal right-wing Democrat Party's advent into the power in 1950 further consolidated the free market policies especially during the first half of 1950s (Ahmad, 1977: 122-146; Boratav, 2005). The change in the global political economy was also quite important in Turkey's liberalization attempts in the 1950s. The US, as a hegemonic power at the time, aimed to design and institutionalize a new capitalist world order in the post-war era. Accordingly, she implemented massive aid programs, like Marshall Aid programme from which Turkey benefited significantly. In return for financial aid, technical assistance and diplomatic support, Turkish political elites were encouraged to specialize on agriculture and liberalize Turkish economy. For example, in a study conducted by American experts team led by *Max Thornburg* that were sent to Turkey for technical support concluded that "the curtailment of étatisme and the favoring of free enterprise… must be a prerequisite of American aid" (quoted in Ahmad, 1977: 124). For a study of this period from system perspectives, see Keyder (1987).

[65] For a collection of essays on the rise and fall of developmental economics in international political economy, see Şenses (2010) .

Regarding this study's perspective, there are two basic characteristics of the *étatiste* era. From industrial point of view, state bureaucrats under the guidance of State Planning Organization (hereafter, SPO) attributed themselves the main coordinator and investor role in the real economy. SPO, which was established in 1960 under the extraordinary conditions of 1960 military coup, developed 'five year development plans' with the aim of "carrying out, in uniformity and in an efficient, orderly and rapid way, the economic, social and cultural planning activities of the country in order to use resources efficiently and to accelerate development" (SPO, 1994). In this context, state shouldered the responsibility of investing in physical infrastructure, in the big scale projects, and other necessary fields that the private sector hesitate to invest due to the financial, scale and efficiency concerns (Ünay, 2006: 54-60).

In terms of financial sector, *étatiste* era was characterized by "highly repressive" financial policies (Akyüz, 1990: 98; Sak, 1995: 56). In this regard, the repression included ceilings on deposit and lending rates; negative interest rates; credit rationing and subsidized credit to priority sectors; overwhelming taxation of financial transactions; high liquidity and reserve requirements; low quality bank portfolios and underdeveloped capital markets; entry and exit barriers to foreign banks; the frequent use of Central Bank as a creditor of public finance, etc. In this juncture, the finance was seen as an epiphenomenon of the industrial sector and appreciated as long as it worked as a servant of developmentalist goals in the economy.[66] This understanding played important role in the emergence and consolidation of finance capital in Turkey.

[66] This understanding reflects the mainstream political economy approach of the era because finance and production started to 'act as autonomous aspects of economy' only after the 1980s. As Watson (2005: 195) aptly puts it: "[After the 1980s] financial markets have increasingly embedded a circuit of capital that is fully contained within the financial markets themselves. Finance and production have begun to operate ever more as autonomous aspects of the economy. Financial markets no longer exist solely as a means of providing capital for investment in the productive sectors of the economy. Financial markets themselves have become a genuine realm for the valorization of capital."

4.1.1. The Emergence of Finance Capital in Turkey

The *étatiste* period in Turkish political economy was an important episode in terms of the emergence of Turkish finance capital. During this era not only the basic financial and industrial corporations came into existence but also the state-business relations were crystallized in a particular manner. In an unstable and fragmented political and social environment, the state bureaucrats tried to shape the direction and composition of Turkish economy both as a 'player' and a 'regulator.' The state protected the domestic finance capital in three major ways in this period (Boratav and Yeldan, 2001: 5). First, the trade regime was subjected to high customs duties and non-tariff barriers. Under the highly protected and isolated environment, the finance capital in Turkey captured oligopolistic profits and exploited the opportunities in the domestic market. Second, the governments encouraged the public firms (namely the *state economic enterprises*) to provide raw materials and intermediary goods to the private industry below the production-costs, which further contributed to the oligopolistic profits in the economy. The main aim here was to provide the intermediary products at the cheapest prices available in order not to allow the private finance capital to import from abroad. By so, the domestic demand was also aimed to be boosted. Third, the state pursued a repressive financial policy. Accordingly, financial markets (mainly the banks) were suppressed strictly. The ulterior aim was to provide cheap credit to the industrial sector so as to boost fixed capital investments. In order to balance the 'market-society relations' in this period, the governments followed populist policies in terms of wages and agricultural support. As part of creating a domestic consumption market, the manufacturing workers were supported by generous wage policies and the rural classes were underpinned by agricultural subventions (Keyder, 1987: 299-300).

The generous government policies shaped the destiny of finance capital in the country. During the development planning period, the number of conglomerates ('holding', in Turkish) increased spectacularly. The industrial elite in Turkey immediately exploited the state-created opportunities and new conglomerates were started to be established in the early-1960s with an accelerated pace in the 1970s. For example, there were just two conglomerates in Turkey before 1963; the number of newly established conglomerates increased by 19 in the years between 1963 and 1970 (Öztürk, 2010: 92). More strikingly, 106 new conglomerates were established in the 1971-1976 period. The biggest finance capital firms in Turkey, namely Koç (1963), Sabancı (1967), Yaşar (1968), Eczacıbaşı (1970), Alarko (1972), Borusan (1972), Çukurova (1972), Enka (1972) came into existence in this period (Öztürk, 2010: 92-93).

There were mainly two reasons for the emergence of conglomerates in the 1970s. First of all, the inward-looking accumulation strategy pursued by the state enabled the manufacturing companies to quickly accumulate enormous profits in a very uncompetitive environment. The deliberate government policies, as mentioned above, encouraged the oligopolistic structure in Turkey. As the natural result of this process, the oligopolistic firms searched for new sectors to invest in (Öztürk, 2010: 101). The second reason was the 'unrelated diversification' strategy of the Turkish finance capital mainly due to the legal considerations and rent-seeking motivations. In a highly protected and isolated domestic market, making profit by investing in newly emerging sectors was seen more profitable and rentable than improving efficiency and enlarging scale in 'related sectors.' Moreover, the legal regulations of the state, in this context, for example, the Law of Income Tax (*Gelir Vergisi Yasası*) in 1961, abolished the double taxation and paved the way for the establishment of new conglomerates. Thanks to this law and some other supplementary regulations, the tax burden of the conglomerates was reduced by almost 27% (Öztürk, 2010: 91). As a result, the finance capital firms overwhelmingly invested in other sectors without taking into consideration of whether they were 'related' or 'unrelated.' The following table shows the diversification of the finance capital in Turkey by tabulating the investment areas of biggest conglomerates in the late 1970s.

Table 6: The Biggest Finance Capital Groups in Turkey (Late-1970s)

Conglomerate	Sectors/Sub-sectors
Akkök	Textile, textile intermediary products, carpet industry, chemical products
Alarko	Air conditioners, heating plants, heavy machines, construction
Anadolu	Beer, office items, industrial motors, commercial vehicles
Borusan	Steel pipes, automobile supply industry
Çukurova	Banking, insurance, vegetable oil, construction vehicles, textile, chemistry, construction, steel
Doğan	Media
Doğuş	Banking, construction, food, auto tires, auto supply industry
Eczacıbaşı	Pharmaceuticals, ceramic health appliances, cleaning goods, financial securities
Enka	Construction
İhlas	Media
İş Bankası	Banking, insurance, glass, cement industry, electricity, vegetable oil, sugar, cleaning appliances, metal, auto tires, textile, chemistry, plastics, ceramic, packing
Kale	Ceramic construction goods, exterior plastering
Koç	Banking, insurance, cable, electricity, electric motors, electronic goods, white goods, home appliances, LPG appliances, canned-food, auto tires, isolation products, agricultural vehicles, automobile, motorcycle, commercial vehicles, textile, installation jobs
OYAK	Cement industry, canned food, pesticides, auto tires, automobile manufacturing, construction
Profilo	White goods, small appliances, electronic goods, ship and yacht manufacturing, metal manufacturing
Sabancı	Banking, insurance, cement, vegetable oil, machinery, plastics, synthetic fiber, metal manufacturing, automobile supply industry, textile
Tekfen	Construction, electricity, dairy products, metal manufacturing, fertilizer
Source: Adapted from Öztürk (2010: 94)	

4.1.2. The 'Reactive' Role of the Turkish State in the 1960s and Crisis

The *étatiste* period in Turkey helped crystallizing a particular form of 'state-business relations.' It is of vital importance to analyze the position of the state in Turkish economy in this period, since it created *path dependence* for the incoming periods. The characteristics of the Turkish state in this era can be assessed as 'reactive' at least due to three main reasons. First of all, the state bureaucracy could not transform the socioeconomic conditions in the country, albeit bold aims were set at the beginning of the planning period. The state logic in general and the development plans in particular accepted the socioeconomic structure of the country as given. The structural imbalances in the economy and the social and political problems inherited from the past were not adequately addressed. In other words, the development plans could not be placed into a wider political economy transformation of Turkish polity. This point is aptly underlined by Ünay (2006: 103) in his study;

> Turkish development plans were characterized by… an exclusive focus on steady economic growth than a more broader vision comprising the qualitative changes in domestic political economy; a clear concentration on industrialization as the engine of economic development without any sectoral diversification, prioritization or at least a *de jure* connection to a long-term socioeconomic transformation strategy.

More importantly, however, the narrowly articulated development strategies were conducted by the highly politicized bureaucratic teams in a fragile democratic political juncture (Keyder, 1987: 299). This point refers to the second reason to coin the Turkish state's role as 'reactive', because, the state bureaucrats could not assume 'policy autonomy' (Ünay, 2006: 110). The blurred legal boundaries and bureaucrats' shaky relations with the political-military-economic elite avoided the healthy implementation of long-term oriented development plans. Many times, powerful interest groups "penetrated the planning framework by exploiting the channels of political representation and imposing policy distortions to boost unjustified sectoral gains" (Ünay, 2006: 110). As a matter of fact, due to the heavy political and military pressures, the first development planning team, the most ambitious and technically able staff, resigned in 1962. The number of planning experts was also unnecessarily enlarged mainly for political reasons. For example, the number of planning experts, which was 47 at the beginning, rose to 152 by 1980. Strikingly, only Soviet Union was employing comparable numbers of planning staff with the SPO at the time (Ünay, 2006: 107). As a result the technical quality of the expert team deteriorated dramatically and they lost their transformative role in state-finance capital relations almost completely.

The third reason for coining the Turkish state as 'reactive' in this era was the lack of state-business synergy. With a narrowly articulated development guidelines and under a political economy environment that lacks 'political autonomy' for planning staff, it was by no means possible to institutionalize multiple dialog channels between state and business elite for discussing and determining the vital developmentalist goals. As a natural result, opposite to the Spanish case, neither the state bureaucrats nor the finance capital pressurized for more internationalization and more export promotion strategies. Öniş (1998: 273) rightly argues that Turkey could have succeeded to maintain industrial transformation by implementing gradual export promotion strategies along with the other developing East Asian countries in the early 1970s. Yet, it was not on the agenda of Turkish finance capital to push for further institutionalization of dialogue channels and for more internationalization of Turkish economy. Instead, the establishment of bilateral dialogue channels with the key political figures and the *ad hoc* solutions to major structural problems turned out to be the main rules in the management of Turkish economy at the time. Similarly, the business elite developed negative attitudes towards European Economic Community membership in the late 1970s (Eralp, 1997: 93-99) and did lobbied for anti-EEC wings.

Mainly due to the aforementioned reasons, Turkish economy plunged into cul-de-suc starting from the mid-1970s. Chronic FX crises as a result of the die-hard import substitution policies and the external shocks like 1973 and 1979 oil crises; currency devaluations to mitigate the impacts of deteriorating foreign trade deficits; the political crises triggered by weak coalition governments and the worsening social chaos that resulted in the street violence and killings as part of the political struggles between the left-wing and right-wing activists laid the groundwork for a comprehensive political economy crisis in Turkey (Kepenek and Yentürk, 2007: 195-196; Heper, 1985: 1). In addition, except from the first one, none of the development plans' targets could be achieved successfully. Ultimately, the September 12, 1980 military coup put a sharp end to the 'planned years' in the Turkish economy in favor of a liberal political economy model. It is striking that the demise of development planning, which was put into implementation after a military coup in 1960, coincided with another military coup in 1980.

4.2. The Liberalization of Turkish Finance and Economy (1980-2001)

Turkey entered the 1980s with dire political economy conditions. The inflation rate sky-rocketed, unemployment increased, and the social unrest culminated (Baysan and Blitzer, 1990: 9). Due to the FX shortages, external shocks and macroeconomic imbalances, the planned economic management started to be criticized severely by different social groups, especially by business elite (the flagship of which was TÜSİAD) in the country (Türk, 2009: 23; Beriş, 2008: 35).[67] Under these circumstances, similar to the previous experience, the end of the planned period was brought by another *coup d'état*, which deeply influenced the Turkish political economy structure. The 1980 was a turning point for Turkey not only in terms of politics, but also in terms of economic management. In fact, after the 1980, the destiny of the Turkish economy and finance capital changed comprehensively. 24 January Decisions (*24 Ocak Kararları*), which was designed, and implemented by (then) Prime Minister and President Turgut Özal, was at the center of the transformation.

A structural adjustment program was introduced on January 24, 1980 under the auspices of the World Bank and the IMF. The essence of the Decisions was to transform Turkish economy from an inward oriented 'import-substitution' economy to an 'export-oriented' open one.[68] The transformation of Turkish finance capital and the

[67] For example, leading Turkish businessman Vehbi Koç, in a letter he sent to military coup's leader Kenan Evren, openly supported Turgut Özal's appointment to the economic seat of the new management (Boratav, 2005: 63-64).

[68] For a detailed political economy discussion of policy reforms in Turkey in the 1980s, see Öniş and Webb (1992)

state's economic policies in this transformation constitutes the main theme of this part of the chapter. In order to deal with the massive change in question, the neoliberal transformation of Turkey will be investigated under two sub-periods, which are the 1980-1989 and the 1989-2001 periods. The reason to divide the 1980-2001 era into two sub-sections is mainly due to a very important decision in Turkish financial history. In August 1989, Turkey fully liberalized its capital accounts and full convertibility of Turkish lira was realized (Boratav and Yeldan, 2001: 7).

4.2.1. First Phase of Neoliberal Restructuring (1980-1989)

In this part the first phase of neoliberal restructuring in Turkish finance capital will be assessed. In 1980, a comprehensive liberalization program was put into force that was materially supported "as a test case" by IMF and WB. As Turkey turned out to be one of the first developing economies to embrace neoliberal policies in the world political economy, "the IMF and WB were committed to present the Turkish experience as a model of success to the rest of the less-developed countries" (Demir, 2004: 852). Turkey was supported with five structural adjustment loans provided by the WB and other official OECD creditors (Demir, 2004: footnote 4). The program was also implemented under a military regime, which occupied the government after September 12, 1980 military coup and lasted up until November 1983 (Harris, 1988: 197-198). In retrospect, *24 January Decisions* foresaw a stabilization-cum-liberalization program with at least ten concrete policy objectives (Yalman, 2009). These objectives were (1) the implementation of a flexible exchange rate policy; (2) encouragement of an export-led growth via export promotion measures; (3) gradual liberalization of import tariffs and liberalizations; (4) the rationalization of external debt services and information systems; (5) strict monetary policies in order to curb high inflation; (6) deregulation of interest rates and diversification of financial instruments; (7) rationalization of public investment programs; (8) the encouragement of privatization programs in order to give more rooms to private sector; (9) improvement of the administration and budget management of the state economic enterprises; (10) institutional rationalization and efficiency measures in crucial sectors (Baysan and Blitzer, 1990: 10-11).

In the first phase of neoliberal restructuring process in Turkey (1980-1989), important developments took place; as a first step, the government promoted export-led growth with substantial subsidies. A wide range of incentives were used to promote manufactured exports such as tax rebates, credit subsidies, and foreign exchange allocations (Öniş and Webb, 1992: 28-31). In this era, the abovementioned direct benefits composed the one-fifth of the value of manufactured exports (Baysan and Blitzer, 1990: 13). Under the generous export promotion schedules and tax incentives the Turkish conglomerates veered towards export activities by establishing 'foreign trade capital firms.' However, the incentives were distributed under lax governmental regulations, as a result of which the 'imaginary export' boomed (Kazgan, 2002: 138). According to State Planning Organization's calculations, during 1984-1987 period, the 'imaginary export' activities were composed of the 15% of total exports. This ratio was calculated much more higher than SPO (about %30-35) by other institutions (Öztürk, 2010: 140). The second step of *24 January Decisions* was the gradually phased import liberalization strategy. Turkey, opposite to its legal commitments, did not reduce import tariffs towards the European Economic Community (hereafter, EEC) in the 1970s. Özal, on the other hand, designed tariff and quota liberalization schedules in order to comply with the Additional Protocol signed with the EEC in 1971 (Balkır, 1993: 111-114). The third step was to change the exchange rate strategy from fixed-exchange rate to managed floating exchange rate system. The government devalued the Turkish lira vis-à-vis other currencies in order to promote export incentives of Turkish firms. Concurrently, Turkish lira was devalued by 48.6% by January 1980 and further devalued seven times along the same year (Baysan and Blitzer, 1990: 11). The final step under *24 January Decisions* was the liberalization of domestic financial system. By so, the positive interest rates were introduced and financial institutions were allowed to lift the ceilings on personal time deposit rates (Akyüz, 1990: 99).

As a part of the liberalization plan framed by *24 January Decisions*, the domestic financial structure was also opened considerably. The new political economy conditions, in this context, created new opportunities and risks for different actors in Turkish economy and finance capital, *inter alia*. One of the early warnings of the precipitous financial liberalization came in the early 1980s with the Bankers crisis. On July 1st, 1980, the time deposits and credit interest rates were set free by a Banks Resolution, as a result of which the interest rates started to be raised freely by the banks (Ateş, Uras and Kaban, 1999: 388). In order to meet the increasing demand of the population for more interest revenue, the number of broker bankers proliferated under lax legal regulations. Most of these bankers were not working for institutionalized companies and were operating in the informal sector; hence, the bonds and bills they sold in return for high interest revenues were outside the legal protection (Çölaşan, 1984). The number of bankers in early 1980s increased such a level that almost 1 banker appeared in Turkey per 45,000 people.[69] Most of the banks (31 out of 38 banks) also took part in the financial market to issue certificates of deposits (Ateş, Uras and Kaban, 1999: 338). The unsustainable 'Ponzi financing' crashed in 1982 summer due to the liquidity shortage and many bankers and banks working with them went into bankruptcy. It is estimated that the financial havoc created by bankers was about 2.5% of GNP in 1982 (Akyüz, 1990: 99). This early crash forced the government to postpone financial liberalization in banking sector for a while and to Central Bank set the deposit and interest rates again.

The financial transformation, however, gained momentum in a short time period as the initial wave of crisis lost its impact. Boratav and Yeldan (2001: 6) summarize the developments in this period as follows;

> …It can be stated that the mode and pace of financial reforms during the 1980s progressed in leaps and bounds, mostly following pragmatic solutions to emerging problems. The foreign exchange regime was liberalized early in 1984. Banks were allowed to accept foreign currency deposits from residents and to engage in specified external transactions. The Central Bank's control over commercial banks was simplified with a revision of the liquidity and reserve requirement system. An inter-bank money market for short term borrowing facilities became operational in 1986. In the following year the Central Bank diversified its monetary instruments by starting open market operations. A supervisory and regulatory agency over the capital market, *Capital Market Board*, was

[69] For the details of 'bankers crisis' in Turkey, see Çölaşan (1984).

established which initiated the re-opening of the Istanbul Stock Exchange.

As a result of the *24 January Decisions*, Turkey succeeded to transform itself from an inward-looking import-substitution economy into an export-oriented one and the financial credit channels diversified. In this early phase of Turkish liberalization, the Turkish finance capital took the first steps in the consolidation and internationalization process. For example the share of industrial products increased to 80% of total exports at the end of the 1980s, which was 36% at the beginning of 1980s (TSI, 2009). The GDP per capita increased from $1,570 in 1980 to $2,715 in 1990. Similarly the total trade volume reached to more than $82 billion, which was less than $11 billion in 1980. In the same period, moreover, Turkey integrated with the world commodity markets substantially. Turkey's export-to-GNP ratio increased from 7% to more than 20% in the mid-1980. Trade openness ((import+export)/GNP), for example, ascended from 14.36% to 42.2% (Yentürk, 2005: 60). Turkey's export portfolio also diversified remarkably. For example, exports to Middle Eastern countries jumped from $400 million (17% of the total) to more than $3.2 billion in mid-1980s (41% of the total) before falling in late 1980s mainly due to the hazardous Iran-Iran war (Baysan and Blitzer, 1990: 24).

If Turkey's one aim, in the first phase of the neoliberal transformation, was to integrate its finance capital to world economy via commodity markets the other was to liberalize and diversify the domestic financial structures. In fulfilling this goal, noticeable success was also achieved. For example, the total assets of the banking sector in terms of GDP increased from 28.6% in 1980 to 38.2% in 1990.[70] The banking assets expanded significantly and reached to $58 billion up from $21 billion (Kepenek and Yentürk, 2007: 251; Boratav and Yeldan, 2001: Table 2). At the second phase, the ruling-elite went one step further and took a bold decision to fully liberalize the external capital accounts. The second phase of neoliberal restructuring had had very deep impacts on the Turkish political economy in general and Turkish finance capital in particular. The next part will deal with these developments with special reference to the transformation of finance capital in the period in question.

[70] For a detailed account of financial deepening in Turkey in this period, see Akyüz (1990: Table 5.4 and Table 5.5).

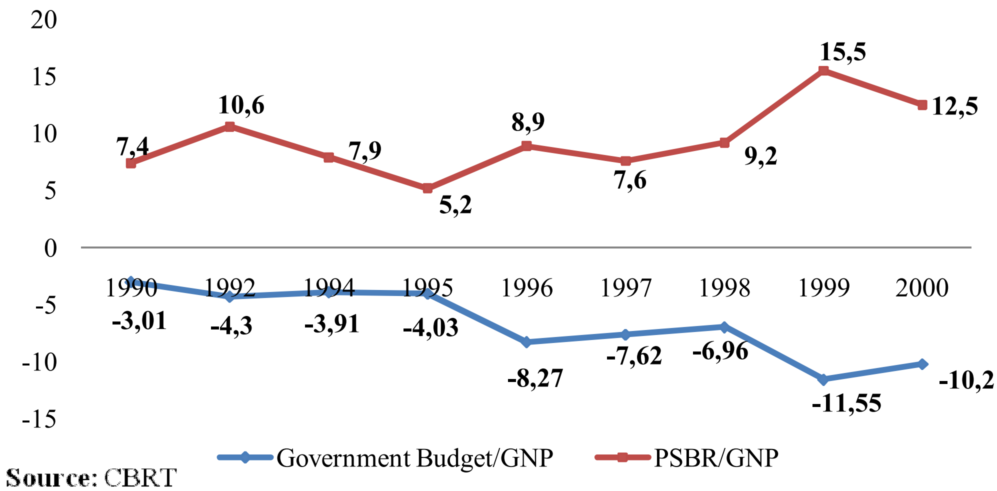
4.2.2. Second Phase of Neoliberal Restructuring (1989-2001)

Turkish government in 1989 liberalized the external capital account by providing full convertibility to Turkish lira. This was a landmark decision in the sense that for the first time in modern Turkish economy, the barriers before the capital inflows and outflows were completely abolished. It was also a major turning point in Turkey's integration with the globalization wave at the time. The anticipated goal of the decision was to improve the financial efficiency and achieve higher growth rates by attracting foreign capital into the domestic market (Altınkemer and Ekinci, 1992: 19-20).

The theory, however, did not coincide with practical life in Turkey mainly due to the 'reactive' state policies vis-à-vis the structure of global economic restructuring. First of all, the capital account liberalization was realized under weak macroeconomic fundamentals. The government balances in terms of inflation, unemployment, consolidated government deficits and public sector borrowing requirements (PSBR) were not promising at the beginning of 1990s.[71] Second, the capital account liberalization was implemented under a poor institutional design. The relevant regulatory institutions to supervise the domestic financial actors and capital in/outflows could not be established because the 'neoliberal orthodoxy' that fully trusts the capital's capability to flow from unproductive areas to productive sectors/countries was accepted without any critique by Turkish authorities. The developments in the 1990s, however, were proved contrary. Since macroeconomic fundamentals were weak and they further deteriorated over the decade, in the 1990s, the state turned out to be the major destabilizing factor in the market. Accordingly, the government budgets and the borrowing requirement of the public sector increased extraordinarily (see figure 11).

[71] For a detailed account of Turkish macroeconomic environment, see Yentürk (2005).

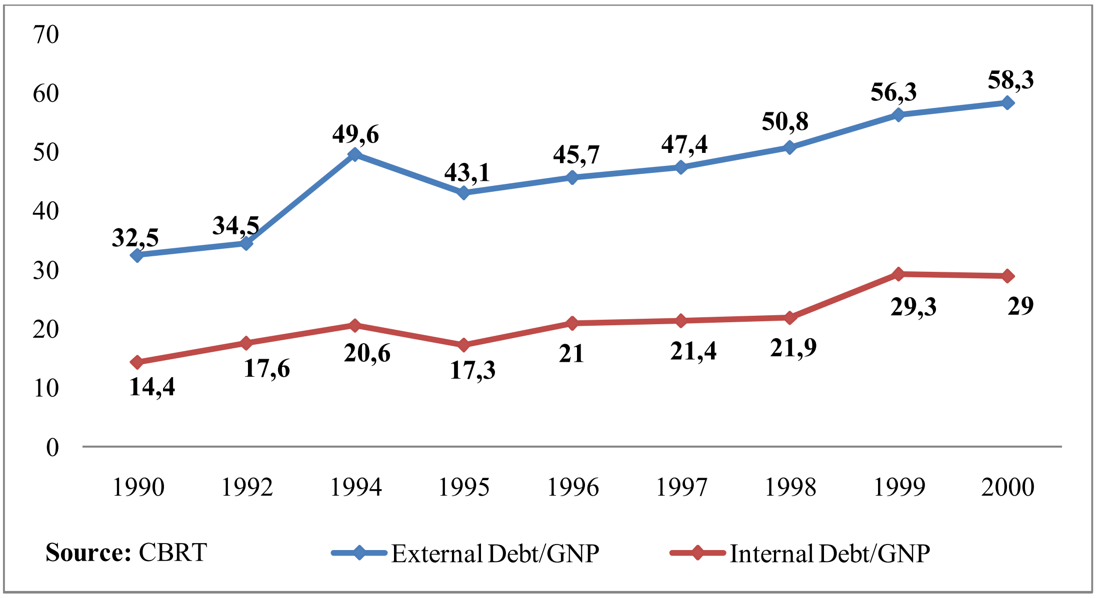
Figure 11: Government Budget and PSBR in Turkey in the 1990s



Source: CBRT

Both the internal and external liberalization increased the government's ability to borrow irresponsibly from the private actors. The domestic finance capital, in turn, contributed to the emergence of a 'speculative-led growth' by providing funds to the public sector. The governments, in order to finance deficits, consulted to short-term capital inflows provided by the private finance capital; the short-term capital, in turn, further increased the governments' debt burden. A typical *Ponzi* financing mechanism became the main rule in the country (Boratav, 2005: 178). In retrospect, it is apt to argue that the economic ruling-elite made two vital mistakes regarding the financial sphere of the economy during the 1990s. On the first hand, in order to attract short-term foreign capital inflows, the interest rates were deliberately kept very high in real terms. The high interest payments, on the other hand, caused the buildup of the domestic debt stock with a heavy burden on the budget (Akyüz and Boratav, 2003: 1550-1552; see figure 12). The share of interest expenditures in the budget, for example, increased from 3% in 1975 to 51% at the turn of the century (Demir, 2004: 855).

Figure 12: External/Internal Debt Indicators in Turkey in the 1990s (%)

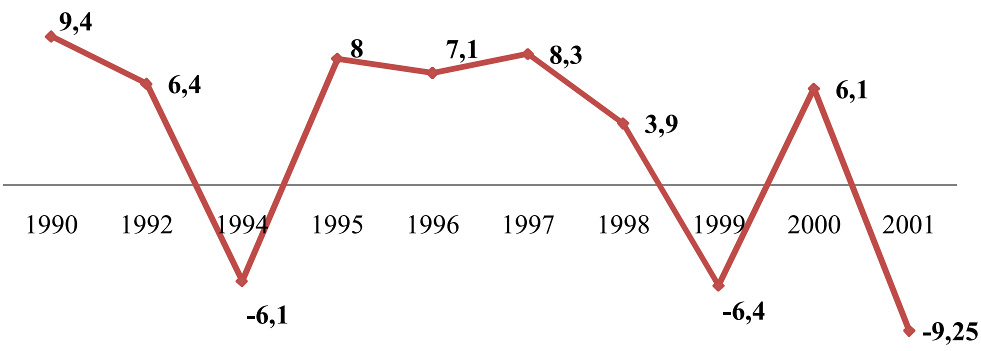


This policy had devastating consequences for Turkish finance capital due to the improper allocation of resources. Both the public banks and the private financial institutions became the 'cash box' of the state and they could not extend the necessary funds to the industrial sector for green-field productive investments.[72] Starting from the late 1980s, the Turkish holdings started to acquire banks in order to take their share in the rentier capital accumulation structure.[73] Moreover, the combination of bad macroeconomic fundamentals with the unregulated capital made the economic growth and total wealth to become over-dependent to speculative international finance capital. The phase and nature of economic development, as a result, was not determined by the joint-decisions and strategies of state and domestic finance capital but by the overly-volatile international financial movements (Yentürk, 2005). The following figure shows the volatile economic growth in Turkey over the 1990s. In such a kind of volatile economy, *inter alia*, it is not an easy task to make long-term investment decisions and implement them. Instead, short-term speculative incentives dominated the economic attitudes of finance-capital in Turkey.

[72] This point is to be analyzed in the next part.

[73] For the full list of Turkish holdings that acquired banks, see Ergüneş (2008).

Figure 13: GNP Growth Rate in Turkey (1990-2001, %)



Source: CBRT

The second vital mistake for the economic ruling-elite was to introduce blanket coverage to deposit accounts in public and private banks (Özatay, 2000). The government's said decision further exacerbated the already existing moral hazard problems in the financial system. Since the internal and external supervisory mechanisms were rudimentary and government insured all the deposits in the banking system, the banks lost their entire motivation to play their basic intermediary role. More importantly, they channeled the deposits into their affiliated conglomerates without operationalizing any serious credit allocation and risk assessment mechanism (Ergüneş, 2008: 313-334). Under these conditions, the finance capital in Turkey turned into a rent-seeking coalition (Akyüz and Boratav, 2003); thereby, *crony capitalism* became Turkish economy's main characteristics in this period.[74]

Another striking feature of crony capitalism in Turkey was the role of non-market forces in the economy. From a critical perspective, this aspect is vitally important since it helps explaining 'who-gets-what' in a *crony capitalist* economy like Turkey

[74] *Crony capitalism* is a term describing an allegedly capitalist economy in which success in business mainly depends on close relationships between businessmen and different segments of government officials and state bureaucrats. The personnel ties instead of the rules that are based on legal standards determine the structure of the economy.

in the 1990s. This era in Turkish political economy is characterized by fragile and weak coalition governments whose life was less than an election period.[75] The political instability in the first half of the decade did not enable the governments to pursue a long-term developmental strategy and transform the state-business relations. Instead, the governments heavily relied on the 'specific business groups' in order to accumulate support to remain in power. The business elite, on the other hand, played on the political *cliques* to sustain their privileges at the expense of the performance of overall economy (Alkan, 1998).[76]

Furthermore, in the second half of the 1990s, the political tension was transformed into a *civil-military* conflict after the Welfare Party, a political party known by its Islamist tendencies, formed a coalition government with the centre-right True Path Party in June 1996 (Cizre, 2002: 93-96).[77] The military elite in Turkey directly intervened into the politics in February 1997 with the allegation of avoiding the "regime change" in the country, an intervention known as "post-modern *coup d'état"* (Bayramoğlu, 2007). The army forced the leader of the Welfare Party to resign from premiership. The intervention not only exacerbated the fragility of Turkish democracy on the eve of the new millennium but also distorted the functioning of the markets. From a political economy perspective, some scholars argue that the military intervention had an economic motive, *inter alia*. One aim was to block the further rise of fledgling Anatolian bourgeoisie against the orthodox capitalist circles that has organic links with the *embedded* state apparatuses (Doğan, 2009: 294-303).[78] Having acknowledged the fact that the military elite distributed conservative businessmen lists as the financier of the pro-Islamist movements in Turkey during the 28 February

[75] In the first half of the decade (1991-1995), True Path Party and Social Democratic Populist Party formed a coalition government. In the second half of the 1990s, first, True Path Party and Welfare Party formed another coalition government (June 1996-June 1997), which was then replaced by Motherland Party, Democratic Left Party and Democrat Turkey Party coalition (June 1997-January 1999). The final coalition government at the end of the 1990s was formed by Democratic Left Party, Nationalist Movement Party and the Motherland Party (May 1999-November 2002).

[76] For the very bad macroeconomic performance of the coalition governments in this era, see Erdem, Şanlıoğlu, and İlgün (2009: 232-350).

[77] For the political economy of the rise of Welfare Party in Turkey, see Öniş (1997).

[78] In Chapter 5 the rise of Anatolian capital and its impact on state-business relations will be covered in depth.

process (Can, 1997: 59), this argument does not seem senseless. Moreover, the big business's, mainly TÜSİAD's, strong support of the military coup seems to improve the validity of this argument (Doğan, 2009: 300). However, explaining the military intervention in 1997 by just relying on this argument falls short of covering the entire reality. Nevertheless, it is another aspect of Turkish political economy that the military has strong roots in the economic realm. If one approaches the military's role in Turkey from a political economy perspective it becomes apparent that the military should not only be studied as "a ruling elite", but also as "a socio-economic class" (Karabelias, 2008: 1). Accordingly, some political economy scholars study Turkish army as a part of capitalist market economy in Turkey (Demir, 2005, 2009; Parla, 1998; Güllük-Şenesen, 1995). Apart from the direct share received from the central budget,[79] the Armed Forces Trust and Pension Fund (OYAK in Turkish abbreviation) and its sister organization the Foundation for Strengthening the Turkish Armed Forces (TSKGV in Turkish abbreviation) had become important conglomerates over the years. For instance, OYAK had shares in fifty companies, including French car giant Renault, DuPont, Mobil, Shell etc. It controls about 11% of total market share in cement and 15% in car industries. Moreover, it controlled one of the major banks in Turkey (Oyak Bank) up until 2007. During the 1980s and 1990s, the real annual profits of OYAK grew more than 100%, the periods that Turkish economy experienced massive fluctuations (Demir, 2009). From this point of view, army in Turkey turned out to be an important economic actor, albeit a "neo-mercantilist" one (Parla, 1998).[80]

Regardless of the political and economic backdrop of the military intervention in 1997, it is noteworthy to underline the political economy consequences of the military intervention. The military intervention exacerbated the fragmented nature of

[79] The defense budget accounted for at least 14% of the budgetary (non-interest) expenditures between 1998 and 2008 (quoted in Fırat, 2009).

[80] Parla refers the army in economy as "neo-mercantilist" because OYAK Holding does not fit into the context of a private business firm acting in free market. First of all, OYAK receives tax exemption benefits and legal protections that are enjoyed only by public entities. Secondly, the members of board of directors are mostly composed of military affiliated people (both active and retired). Thirdly, the military members (about 202,000) pay compulsory fees from their monthly salaries but have little right to say in the management and auditing of the Holding. For details on the organizational structure and "neo-mercantilist" nature of OYAK Holding, see Parla (1998) and Demir (2009).

politics and further destabilized the Turkish economic and financial system in the second half of the 1990s, which was culminated with Turkey's biggest economic crisis in 2001. In this period, it had become a major practice to hire retired generals on the board of directors of private firms. Accordingly many high ranking retired army officials took part in the banks including Sümerbank, Interbank, Etibank, and Bank Express (Demir, 2009). The abovementioned banks declared their bankruptcy in the crisis period due to the mismanagements. This situation seems to strengthen the crony capitalism arguments developed in this chapter. In this context, the rest of the chapter will be devoted to the evaluation of Turkish finance capital during the 1980-2001 period with special reference to the 'reactive' state policies.

4.3. The Political Economy of a 'Reactive' State

Since there was no significant landowner aristocracy or artisans to form bourgeoisie and business class during the emergence of modern Turkey, the state acted as the main agent to create a capital class in early Turkish republic. In other words, Turkish business class emerged as a largely state-created entity with no links with land ownership and, moreover, with no tradition of craftsmanship (Buğra, 1994a). In this juncture, the state bureaucrats and the politicians played a crucial role in the establishment of the earliest firms in Turkey. For example, the bureaucrats were on the managerial posts of the 74.2% of the corporations that established between 1931 and 1940 (Keyder, 2005: 149).

The state's role in economy relatively declined in the aftermath of Second World War mainly due to the US's financial and administrative support in return for economic liberalization. Also in this era, Turkish private finance capital for the first time appeared in Turkish economic history. However, after a short liberal experiment, the economic management in Turkey switched into the development planning track following a military coup in 1960 (Ünay, 2006: 53). After this period, the state planning under the guidance and control of SPO shaped the state-business relations for about two decades. In the planning years, Turkish financial conglomerates established and proliferated rapidly. The organic dependence of capital to state, nevertheless, could not be transformed into productive state-market cooperation. As a result of the own crisis of planning economy policies and the sea changes in global political economy in the early 1980s, Turkey shifted its policy orientations once more time shortly-before another military coup on September 12, 1980. The aim of the liberalization attempts was to integrate Turkish finance capital with the rest of the world. However, inaccurate and ill-timed political decisions accompanied by deep-seated macroeconomic problems paved the way to the subsequent financial crises throughout 1990s.

After 1980, especially during 1990s, Turkish economy became vulnerable to the attacks of short-term foreign speculative investments (so-called "hot money") due to the unbalanced and inconsistent fiscal and monetary policies. In order to deal with high chronic/secular inflation, budget and current account deficits, economic ruling elite tried to attract foreign capital. The natural response during the 1990s was to increase the interest rates which in turn stipulated high amount of short-term speculative money coming in Turkish markets in order to take advantage of "arbitrage opportunities" (Yentürk, 2005). However, the macroeconomic distress and the political chaos in Turkey aroused the concerns of foreign economic actors and two financial crises, 1994 and 1999 turmoil, emerged during the 1990s. The basic reasons of the 1994 and 1999 crises were not cured in the aftermath, and laid the groundwork for the devastating 2000 and 2001 crises (Öniş and Rubin, 2003).

In terms of the perspective of this thesis, the Turkish state was not successful enough to pursue a 'pro-active' strategy in transforming finance capital as part and parcel of a broader political economy agenda. In the neoliberal era in Turkey, the state had a "double-face" in the sense that it was quite "strong" in managing the state-society relations 'from above' with appointed state elites on behalf of elected politicians and in suppressing the rights of citizens; yet it was extremely "weak" in articulating and implementing long-term and viable economic and governance strategies to provide sustainable and equitable growth (Heper and Keyman, 1998). The state policies in economic arena had always been incoherent and the state-business relations were subjected to frequent changes. In fact, the peculiarity of business life in Turkey [in this period] is that "the fundamental source of uncertainty that businessmen try to manage is not the market but the state" (Buğra, 1991; 1994a; 1994b).

The ‘state-induced uncertainty’ had two major consequences. First it avoided professionalization in specific areas of production and expertise accumulation. Accordingly, the business elite searched for ‘unrelated diversification strategies’ to reduce their risks and to exploit political rents in other fields (Öztürk, 2010: 101). Since the long-term perspectives were absent, the business class lost its direction in formulating long-term policy mainly because of the arbitrary political decisions. One of the famous examples, in this regard, is the subsidy schedules, which had changed overnight in line with the demands of a “handful people” (Kazgan, 2002: 128). The “tremendous uncertainty” created by politicians was underlined by the chairman of Turk-Trade in 1989 (quoted in Özel, 2003: 104).

> We cannot see what is in the near future. We cannot make any contracts. If we knew that [the government] would provide us with subsidies, we would act accordingly.

Second, a ‘personalistic/clientelistic’ understanding became the dominant norm in Turkish economy and financial system in the neoliberal phase (Özel, 2003: 106; Öniş and Webb, 1992: 15-17). The clientelistic approach further institutionalized after Turkey decided to integrate its finance capital into the international markets. Since the institutional checks and balances were not established, the ‘top-down economic management’ turned out to be the basic norm (Öniş, 2004: 121). In this conjuncture, the importance of legal norms and institutional mechanisms were overlooked and the ‘Cabinet Decrees’ instead of ‘Acts of Parliament’ constituted the main method of decision-making. In terms of ideology and ideal, there was no doubt that Turgut Özal was a firm believer of free market economy and supporter of business class (Kazdağlı, 2001; Bali, 1998: 31). However, his style of economic management was quite personalistic and far from being long-term oriented. In Heper and Keyman’s words (1998: 267), “Özal used others basically as suppliers of data; otherwise, he made all the critical decisions himself.” As a result, the state-business ‘synergy’ could not be materialized and “policy-making did not help to develop the institutionalization of collaboration between the state and business” (Heper and Keyman, 1998: 267). In such a kind of fragile economic environment accompanied by political instability, the short-term rentier mode of capital accumulation strategies, rather than the efficiency and productivity concerns dominated the agenda of finance capital in

Turkey (Buğra, 2005: 216-217). In this context, Buğra (1994), with reference to R. W. Kerwin, argues that "Turkish businessmen lack a long-term commitment to industrial activity; they demand abnormal returns and rapid amortization, and the tendency to sink a large portion of funds in inventory seems to indicate that objectives of a speculative nature often dominate of enhanced efficiency and profitability of industrial production."[81]

In terms of this thesis' perspective, the root-causes of Turkey's chronic crises in this period should be investigated under the light of the *historical* process. Accordingly, unlike the Spanish case, Turkey's integration into the neoliberal globalization period was realized within the context of 'orthodox globalization recipes' of International Financial Institutions (Öniş and Aysan, 2000: 128-130). The capital account liberalization, in this context, was premature and under-institutionalized (Kazgan, 2002: 153-188; Rodrik, 1990; Öniş, 2003: 6-9). Once the capital inflows and outflows were allowed under bad macroeconomic fundamentals and lacked the necessary institutional checks and balances, Turkish economy in the last decade of the 20th century plunged into deadlocks. The political economy of 'orthodox liberalization' "has pushed the Turkey into an unstable and risky path in four directions" (Boratav and Yeldan, 2001: 20). First of all, the fragility of the domestic financial sector increased considerably. Secondly, the economy was subjected to volatile boom and boost cycles, mainly due to the 'short-term' capital in and outflows. Thirdly, the public sector imbalances and external borrowing requirements hampered the productive investment opportunities in the economy, and finally, the arbitrage-seeking character of short-term capital flows directed the resident and non-resident investors into speculative activities, which in turn paved the way for further fragility and rent-seeking incentives in the economy.[82] All in all, Turkish state could not develop 'pro-active' characteristics in the neoliberal globalization period between 1980 and 2001 in terms

[81] For a more detailed discussion on the restrictions of creating state-business synergy and private sector's inability to implement long-term policies, see Öniş and Webb (1992: 15-18).

[82] Turkey's position is not *sui generis* in the neoliberal globalization period. The other 'semi-peripheral' states that switched their economic policies from 'over-regulation' to 'under-regulation' in the financial liberalization era were also subjected to the similar vicious cycles. For a detailed comparative political economy analysis of Mexico, East Asian countries and Turkey from this perspective, see Öniş and Aysan (2000).

of three main characteristics of 'pro-active' state framework. The 'pro-active' state, by its definition, refers to a state capable of (1) transforming the industrial and financial structure of the country in question, (2) regulating the relations among the market actors, and (3) redistributing the wealth efficiently within the society.

In terms of first characteristic, in the neoliberal restructuring period, Turkey succeeded to transform itself from an inward-looking import-substitution economy into an export-oriented one.[83] While acknowledging the positive developments, however, the more important point in terms of this thesis' perspective is the changing role between state and the finance capital. In this period, it does not seem possible to argue that Turkish state acted as a transformative power to guide the structural change in industrial and financial structure of Turkey (Şenses and Öniş, 2007). On the contrary, Turkish governments became an obstacle on the proper allocation of resources (Cizre-Sakallıoğlu and Yeldan, 2000: 489). The banks in the mid-1990s heavily relied on state debt instruments instead of fulfilling their main intermediary role between the savers and investors in the economy. The extraordinarily high public sector debt requirement encouraged the banks to finance the Turkish treasury. As a result of domestic borrowing requirement of the public sector, the Turkish banks directed their credits towards the treasury bonds and bills. In fact, in this era the financial system borrowed abroad with an interest rate margin of 6-7% and sold this money to public sector with an astonishing interest rate margin of 20-40% (Kansu, 2004: 157). The interest rate that is paid by the treasury was 30 points above the inflation rate during 1990s (Akyüz and Boratav, 2003: 1551). Also in this period, the banking sector had turned out to be the major creditor of the state. More than the 85% of government debt securities were held by Turkish banks (Yeldan, 2006b: 149) and the share of government debt securities in total banking sector assets increased from %10 in 1990 to 23% in 1999 (Kansu, 2004: 170). The 'crowding-out effect' of government hampered the main functions of finance capital in Turkey. Under normal conditions, the credits and the industrial investors should be the main customers of banks. Yet, in the 1990s, the opposite was the case that the state became the major customer of banks. This situation deeply affected the industrial sector in Turkey. In the mid-1990s, al-

[83] See Part 4.2.1.

most two-thirds of the total assets, total deposits and credits in private banks were controlled by the banks of holding companies (Öztürk, 2010: 149). In a situation that major banks concentrated on the government debt securities, the industrial sector did not benefit from the financial expansion and could not find the chance to invest in green-field areas. On the contrary, the industrial firms, also, turned their faces to the treasury to bandwagon the rent-seeking coalition. For some calculations, almost half of the profits of the biggest 500 industrial corporations were realized due to the interest rate revenues of their investments to government securities. This ratio increased to 88% at the end of 1999 (Somçağ, 2006: 54). In his magnum opus, *General Theory*, Keynes (1960: 159) argues that "speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirl-pool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done." It is just to argue that in the 1990's Turkey, the development of finance capital resembled what Keynes defines in the mid-1930s (Kazgan, 2002: 178). The financial corporations and industrial firms also preferred to benefit from the under-regulated traditional economic structures. In summary, the business elite in Turkey, opposite to their Spanish counterparts, did not support the progressive wings of the government to integrate Turkish political economy into European structures in a planned and coordinated way to promote political consolidation and economic competition in Turkey.

In terms of second characteristic, regulating the relations in the financial sphere, Turkish state's role should be labeled as 'reactive' at least due to two reasons. First of all, the decision to liberalize capital account was ill-timed and improperly designed in terms of institutional structure. As argued in the introduction part of this study, the states which successfully integrated their finance capital into the global economic structures followed 'managed openness' strategies like Spain. Turkey as a semi-peripheral country did not pursue the managed openness strategy; on the contrary, abolished its capital accounts "once and for all" (Kepenek and Yentürk, 2007: 213-231). As Öniş and Aysan (2000: 128) underlines, Turkey in the late 1980s "experienced a major transition to an extremely liberal capital account even by the standards of advanced economies with highly developed financial markets." More importantly, the necessary prudential supervision mechanisms were not established either to check domestic financial transactions or to control external capital movements. Secondly, the financial system was not regulated in a proper way to function smoothly and develop organic links with productive investment firms mainly due to the macroeconomic imbalances and clientelistic relationships between state elite and the finance capital. As a result of the public's over-debt ratios the state institutions could not distance themselves from the private actors in order to guide the developments in the market. On the contrary, state turned out to be the main beneficiary of Ponzi-type of financial structure in Turkey. The blurred lines between the bureaucratic elite and the crony capitalist finance capital further contributed to the institutionalization of 'speculative-led growth' in a financially unregulated economy (Cizre and Yeldan, 2005; Yeldan, 2006b).

In terms of third characteristic of 'pro-active' state discussions, wealth distribution capacity, Turkey also showed remarkable weaknesses. First of all, the *24 January Decisions* were put into force under the military administration that occupied the government cadres directly between 1980 and 1983. The decisions, as a result, were taken and implemented under a non-democratic and repressive environment. The political rights of the working-class, for example, were suppressed by the military regime (Öniş and Webb, 1992: 18-20). According to some calculations, more than 60 thousand workers were on strike, in addition to 130 thousands waiting for strike, when the military toppled down the elected government on September 12, 1980 (quoted in Öztürk, 2010: 127). After the *coup d'état* all the syndical movements were suppressed and labor organizations were closed down.[84] A new constitution (1982 Constitution), whose basic philosophy was to 'protect the state against the public' was promulgated by the military elite (Dodd, 1990: 67-94). The wider political economy consequences of military coup exacerbated the legitimacy crisis in Turkish democracy because the frequent military interventions distorted the institutionalization of democratic functioning of the state and state-market relations. As Demirel (2005:

[84] The total damages of the military coup on Turkish society were devastating. About 650,000 people were taken into custody; many of them lost their lives due to the torture and mistreatment. According to the officially accepted figures 171 people lost their lives in prison as a result of torture. Yet, it is clear that the number is quite higher than the official numbers. 43 people were sentenced to death by military courts for committing 'political crimes' and many intellectuals, journalists, teachers, civil servants and university professors were forced to leave the country (Demirel, 2005: 251). For a detailed account of *12 September 1980* coup from this perspective, Birand, Bila and Akar (1999).

254) underlines, “the option of military rule [in Turkey] has never been ruled out, the idea that a democratic regime is not to be discarded under any circumstances could not become an unquestioned belief.” In such a kind of fragile democratic environment, the disparities in Turkish society increased in disfavor of working classes. For example, the wages in the first decade of neoliberal restructuring decreased dramatically. The overall real wages declined by 55% in total, and 20% in the manufacturing industry in the 1980s (Kazgan, 2002: 131). The post-1990 data point to “further shrinkage of real wages, decreasing employment opportunities and worsening of income shares for the poorest groups” (Cizre-Sakallıoğlu and Yeldan, 2000: 488). As a matter of fact, between the 1970s and 1990s, 20% of the households with the highest income have received more than 50% of total disposable income, while the remaining 80% had to satisfy with less than 50% of the total wealth (quoted in Cizre-Sakallıoğlu and Yeldan, 2000: 488).

The inability of the state to act as a ‘transformative’ and ‘regulatory agent’ worsened the distributional consequences of neoliberal integration into global economic structures. For example, unsuccessful management of the migration flows from rural areas to the metropolitan cities mainly due to the lack of industrial transformation plans further exacerbated the social inequalities (Ulagay, 1989: 15-21). Since the migrated population were not educated properly in line with the demands of industry and since the agricultural transformation was pursued by ‘try and error methods’, a marginalized mass population living on the poverty line in big metropolitan areas emerged which is “alienated, weakly integrated, resentful and struggling to survive on a daily basis” (Cizre-Sakallıoğlu and Yeldan, 2000: 492).[85]

To sum up the argument of this chapter, Turkey has become one of the leading countries that embrace the neoliberal globalization perspectives in the 1980s. Moreover, Turkish experience was closely supervised and to a large extent approved by the main international institutions of the time. In this context, however, Turkish state

[85] Furthermore, Turkey did not receive any significant benefit from the external international organizations. Since Turkey could not become a member of the EU, it did not benefit from the enormous funds that were granted to Spain and other Southern European countries to alleviate the side-effects of neoliberal restructuring. Moreover, the funds to be directed to Turkey due to Customs Union decision in 1996 were vetoed by the Greek side. As a result, Turkey adjusted its economy to international competition in goods market without the help of any financial cushion that had to be provided by the EU.

could not develop the necessary mechanisms to position itself as a 'pro-active' agent. On the contrary, from a critical perspective, it showed the many symptoms of a 'reactive' state. Opposite to the Spanish case, Turkish state could not institutionalize democracy as 'the only game in the town.' The economic liberalization, as a result, materialized under a fragile political environment. Mainly due to the weak political structure, the necessary checks and balances could not be developed in transforming the state-business relations into productive cooperation networks. Therefore, the finance capital in Turkey became the part and parcel of a *crony capitalistic* structure that is neither willing to challenge the *status quo* nor capable of contributing to the upward mobilization of the country in the hierarchy of states. The state, on the other side of the coin, acted as the main 'ambiguity creator' in the economy by frequently changing the legal regulations, creating insurmountable bureaucracy before the business groups and by improperly managing the public economy. As a result of the improper integration in neoliberal global political economy, 1990s labeled as 'lost decade' for Turkey. The 'decade' ended with the most hazardous economic crisis in 2001. The crisis, which is a turning point in Turkish political economy from many aspects, facilitated comprehensive changes in state apparatus and finance capital's role in the economy. The next chapter will be devoted to analyze the transformation of finance capital in Turkey with special reference to changing state strategies in the post-2001 period.

CHAPTER 5

CRISIS AND RECOVERY: THE EMERGENCE OF A 'PRO-ACTIVE' TURKISH STATE?

This chapter analyses the transformation of Turkish finance capital during the post-crisis period (2001-2009) with particular reference to the changing role of Turkish state in the process. Turkey entered the 21st century with two disastrous crises, as a result of which the Turkish economy rocked and wounded seriously. In November 2000, Turkish financial markets had shaken with the 'liquidity problem' and bankruptcy of a middle-sized bank. The foreign investors, since they knew that the problems in Turkish economy were well beyond a simple 'liquidity shortage', drew large sums of money within a matter of days. Yet, the economic elite managed to keep the economy on its feet mainly thanks to the financial support of IMF (Tunç, 2003: 31). It became apparent in three months later that there were enormous risks accumulated in the macroeconomic balances and financial system of Turkey. In February 2001, when Turkish Prime Minister, Bülent Ecevit, declared that there was a 'political crisis' between the government and the President of Turkey, the economy plunged into the most severe economic crisis in the Republican era. The crisis hit the Turkish political economy deeply and changed the political and economic landscape irreversibly. In economic terms, after the February 2001 crisis, Turkey abandoned the IMF-designed exchange rate based stabilization (ERBS) program and Turkish lira lost 51% of its value vis-à-vis other major currencies (Yeldan, 2007 and 2006a; Boratav, 2005; Akyüz and Boratav 2003; Kepenek and Yentürk, 2007). GDP shrank by 7.4% in real terms, inflation increased to 68.53%, and employment jumped to 10.3% plateau at the end of 2001.

Moreover, the financial system almost halted after the crisis. Many banks declared their bankruptcy; many others were transferred to *State Deposit and Insurance Fund* (SDIF), a public legal entity with administrative and financial autonomy responsible for the protection of deposits.[86] The confidence toward the system hit the lowest

[86] For the organizational and legal details of SDIF, see http://www.tmsf.org.tr/.

points in decades and banks assets melted down in a short time period.[87] The government poured the tax-payer's money into the corrupted banks in order to bail-out the banking system. According to a *Banking Regulation and Supervision Agency* (BRSA) report (2003), government spent $47.2 billion to bail-out the financial system, including $25.3 billion to rescue private banks. The cost constituted the 32% of GDP in Turkey in 2001 (Öniş and Bakır, 2010: 92).[88] The Turkish government, also, lost its legitimacy in the eyes of Turkish electorates and in the first elections in November 2002 the coalition parties were swept away from the political arena after the elections.[89] From finance capital point of view, too, the crisis put an end to a particular type of capital accumulation and transformed the state-business relation, a point to be discussed in the following pages.

In retrospect, the reasons of 2001 crisis were quite important from this thesis' perspective, since they mainly reveal the fundamental shortages of Turkish state over the integration of Turkish finance capital into the global economy in the neoliberal globalization period. Although different perspectives explain the root causes of the crisis by prioritizing different parameters (Gültekin-Karakaş, 2009b: 71-102); this study, tends to acknowledge the historical-structural political economy factors. Accordingly, three main aspects will be scrutinized briefly.

Bad Macro Fundamentals

As discussed in the previous chapter, Turkey's integration into neoliberal globalization was peripheral in the sense that the institutional checks and balances to control

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[87] The bank assets over GNP ratio declined from 122.7% to 77.3% in a year and credit over GNP ratio deteriorated by 10% in the same period (Ersel and Özatay, 2008).

[88] Between December 2000 and 2002, total debt owed to multilateral institutions rose from $8 billion to $31 billion (Dufour and Orhangazi, 2009: 117). The government debt amounted to 93% of GDP, up from 44% when the IMF Stabilization Program was designed in 1998 (Akyüz and Boratav, 2003: 1551).

[89] The country was being ruled by the nationalist left-of center *Democratic Left Party* (Demokratik Sol Parti, DSP), ultra-nationalist *Nationalist Action Party* (Milliyetçi Hareket Partisi, MHP), and liberal right-of-center *Motherland Party* (Anavatan Partisi, ANAP) at the time of the crisis. In November 2002 elections, DSP received the 1.2%, MHP received the 8.34%, and ANAP received the 5.13% of the total votes. The incumbent Prime Minister Bülent Ecevit's Party, DSP, "may have set a world record for being the largest party in one election and losing almost all its support in the next one" (Çarkoğlu, 2002a: 30).

the free flow of capital and functioning of liberal market could not be established. The unproductive link between financial and industrial capital and the state mechanisms paved the way to a 'speculative-led growth' in Turkey (Yeldan, 2006a: 193-213). In this sense, the 2001 crisis has important structural roots inherited from the early 1980s. Central to the crises in Turkey in the post-1980 period was the unmanageable public sector borrowing requirement (PSBR). The financial liberalization opened the way for the state authorities to borrow from private financial sources by issuing debt instruments. The PSBR increased considerably in the second half of 1990s and reached the 15.6% of GNP as of the turn of the century (Özatay and Sak, 2002: Table 1 and table 2). Moreover, the domestic debt stock, which was close to zero in 1987, reached 25-30% of GDP by 2000 (Öniş, 2003: 7).

The rise in government debt to stimulate growth naturally triggered the real interest rates, as a result of which the budget deficit rose to more than 10% in the same period (Özatay and Sak, 2002). The high state debt 'crowded-out' the private sector from the market and the real sector firms could not find enough 'cheap' sources to invest in productive sectors. Once the state appeared as an 'unsinkable customer,' the private banks changed their asset management policies "from direct loan extensions [to private real industry] to purchasing government securities" (Öniş, 2003: 7). As a result, the banking sector ceased to play its primary intermediation role between the savers and investors in the private sector.[90]

Fragile Banking Sector

The fragile banking system constituted the second pillar of the deadly-imbalances in the Turkish economy on the wake of the crisis.[91] The irresponsible fiscal policy of

[90] The credits' share in total bank assets declined from 47% in 1990 to 32.8% in 2000. In the same period the credit/deposit ratio was deteriorated from 84% to 51% (BSRA, 2001: 6).

[91] The position of the banking system in an open economy is more important than any other single component. As Mishkin (2006: 5) underlines "getting the financial system to work well is critical to the success of an economy. To understand why, we need to recognize that the financial system is like the brain of the economy: it is a coordinating mechanism that allocates capital to building factories, houses, and roads. If capital goes to the wrong uses or does not flow at all, the economy will operate inefficiently and economic growth will be low. Even the strongest work ethic cannot compensate for a misallocation of capital. Working hard will not by itself make a country rich, because hard-working workers will not be productive unless they work with the right amount and kinds of capital. Brain is

public sector motivated the 'rent-seeking' incentives of private commercial banks. The private banks, mainly thanks to the uncontrolled external financial liberalization and inadequate internal prudential supervision, opened short positions and took extensive credit, foreign exchange, maturity and interest rate risks.

The commercial banks in Turkey heavily borrowed from the foreign markets with dollar-denominated short-term instruments and invested in the government debt instruments (especially bonds), which were TL-denominated and long-term in nature. The gap between FX denominated assets and liabilities, as a result, widened in the late-1990s. As row 3 depicts in table 7, the FX assets over FX liabilities ratio for the banking sector deteriorated down to 75% in 2000 from 90% in the mid-1990s. When it became apparent in February 20 that the government was not capable anymore to defend TL against the foreign currencies, the devaluation in 2001 multiplied the debts of Turkish commercial banks; thereby their affiliated conglomerates.

Table 7: Basic Banking Risk Indicators in Turkey (%), (1995-2001)

	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001(9)**
Non-performing l./Total loans	2.8	2.2	2.4	7.2	10.7	11.6	18.6
Permanent assets/ Total assets	7.6	7.3	6.7	8.0	9.4	14.8	18.4
FX assets/FX liabilities	90.6	93.6	89.6	84.9	79.4	75.9	81.0
Liquid assets/Total sources	46.7	44.0	41.1	39.9	42.6	37.9	51.4
% of deposits with 6 or greater maturity in total dep.	26.1	26.6	24.7	22.9	28.2	15.1	11.6
Source: Adapted from Özatay and Sak (2002: table 5).							

The private banking sector, however, just refers to one side of the fragile nature of Turkish financial system. The balance-sheets of the state-banks were even more embezzled. As a matter of fact, they were the 'battle-fields' and 'suitable targets' on which the rent-seeking political aims were materialized in a non-regulated and non-

more important than brawn, and similarly an efficient financial system is more important than hard work to an economy's success."

transparent political economy environment.[92] The clientelistic party politics, the lack of institutional checks and balances, and the 'reactive' characteristic of state policies (non-policies), led to the formation of a "rent-seeking coalition of corrupt politicians, bureaucrats, businessmen, and the media over banking related issues" (Bakır, 2006). The political pressures on the state-banks and inadequate financial supervision resulted in the improper allocation of resources, since the process of credit allocation directed by 'political incentives' rather than 'market-based/rational motivations.' In this process, the duty of state-banks to provide cheap credit below market rates in case of emergency situations were abused due to the "bad loans to good friends" understanding (Öniş and Bakır, 2010). The banks were forced to extent credits to subsidy farmers, 'rent-seeking' private investors that have close affiliation with the politicians and to the privileged circles (Ergüneş, 2008). The duty losses of the state-banks as a result, increased dramatically to 13.3% of GNP in 1999 (Özatay and Sak, 2002: Table 2). The mechanism is revealed by Akın, Aysan and Yıldıran (2009: 74) as follows;

> [During 1990s] the government turned mainly commercial banks, which in turn relied on short-term capital inflows, for deficit financing. Banks had little function as financial intermediaries; their main business was to lend to the government at high rates and borrow from abroad by exposing themselves to serious currency risk. State banks, which constituted a significant portion of the banking sector, were also largely used by the government to accomplish political objectives. They suffered duty losses for which they engaged in short-term borrowing at high interest rates, subjecting themselves to interest rate risk.

In retrospect, it is crystal clear that the bad macroeconomic fundamentals overlapped with those of the fragile financial system. As a matter of fact, the 'reactive' state policies were at the centre of the problem due to two main reasons. First, the 2001 crisis had the historical/structural roots inherited from the early 1980, the years in which Turkey integrated into the neoliberal global system without proper supervisory mechanisms. Second, it was the result of inadequate 'state capacity' to regulate the fiscal and financial sectors properly. As a result, the patronage politics, rent-seeking

[92] The number of banks, most of which was named as 'paper tigers' (Somçağ, 2006: 53-58), increased from 66 in 1990 to 81 in 1999 (BSRA, 2001: 2).

investment activities and the unproductive corruptive links between finance capital and state dominated the political economy of Turkey. At the heart of this relationship fragmented political environment's role was of vital importance to underline.

Fragmented Politics, Bad Expectations

The fragmented politics during the late-1990s was the third aspect of 2001 crisis.[93] The coalition government formed in April 1999, incorporating the nationalist *Democratic Left Party* (Demokratik Sol Parti, DSP), ultra-nationalist *Nationalist Action Party* (Milliyetçi Hareket Partisi, MHP), and liberal right-of-center *Motherland Party* (Anavatan Partisi, ANAP) created a fragile and instable political environment that falls short of implementing 'pro-active' economic adjustment policies (Öniş, 2003: 10). The different ideological orientations and political base of the coalition partners resulted in a lack of political cohesion at the time of the emergency situations (Çarkoğlu, 2002b: 131). Not surprisingly, the necessary economic reforms were not fulfilled and "half-hearted nature of the commitment became increasingly apparent by the summer of 2000" (Öniş, 2003: 11). The conflict between government partners in key reforms like privatization of state-institutions, reduction of agricultural subsidies and EU reforms became apparent and confused the minds of domestic and international investors regarding the direction and aim of the government (Keyman and Öniş, 2007). The expectations, during the late-2000 and early-2001, turned out to be negative and the overall confidence deteriorated irreversibly when Turkish Prime Minister declared that there was a "deep difference of opinion between him and the President and Turkey was in the "midst of a political crisis". The over-night interest rate skyrocketed to 2058% on the 20th of February and 4019% in two days (Özatay and Sak, 2002: 24). As a matter of fact, once the fragmented political atmosphere came on top of the bad economic fundamentals, a 'text-book case' of financial crisis eventuated with disastrous political economy consequences (Özatay, 2009: 84-100). "Without question", argues Tunç (2003: 31), "certain economic weaknesses (the wi-

[93] As a matter of fact, fragmented politics, populist-clientalist cycles, lax oversight under the single leader tutelage system has been one of the major drawbacks of Turkish political history. Once this political understanding merged with the 'under-regulated' liberal economic system after 1980s, the political economy structure became extremely vulnerable to socio-economic crises. For an illuminating analysis on the formation and bankruptcy of Anatolian holding companies from this perspective, see Özcan and Çokgezen (2003).

dening current account deficit, currency overvaluation, and delays in the implementation of certain structural reforms) existed, but they were hardly severe enough to provoke a financial crisis of the magnitude faced by Turkey."

In short, the 2001 crisis refers to a turning point in contemporary Turkish political economy not only in terms of economic and political consequences, but also in terms of its impacts on the transformation of state-business relations. The state's role in the economy was overhauled to a significant extent after the crisis and state bureaucrats (or 'policy entrepreneurs') started to realize the necessity for the state's 'pro-active' role in the global political economy of the 21st century. In addition, a clear intra-capital bifurcation occurred, as a result of which some fractions of Turkish finance capital lost its hegemonic position. The rest of this chapter will focus on the transformation of Turkish state's role in managing the Turkish economy and on the new relationship between finance capital and the state. In this context, the basic pillars of AKP government's economic policies will be reviewed in the second part. Then, in the third part, the transformation of finance capital as a result of AKP policies will be tried to put into context. The final part will open the floor for discussions whether Turkey, in this period, starts to show the 'pro-active' state characteristics akin the Spanish case or not.

5.1. The Economic Policies of AKP Government

In November, 2002, Justice and Development Party (*Adalet ve Kalkınma Partisi*, hereinafter AKP) gained a landslide victory and succeeded to form a single-party government by taking 34.28% of total votes (Çarkoğlu, 2002b: 132). In its first term in office (2002-2007) major changes with crucial impact to the building-up the 'state capacity' in Turkey, had been materialized. In other words, Turkish political and economic scene witnessed the emergence of the seeds of a 'pro-active' state due to the crucial changes in Turkey's institutional capacity, state-business relations and political culture as well. If one investigates the political economy of this period, four points come to the fore.

First, Turkey has given up the *fixed-exchange rate regime* and started to implement *floating-exchange rate*. Second, the structural reforms in the financial system were materialized by means of increasing the capacity and surveillance power of regulatory agencies (Competition Board, Banking Regulatory Agency, Central Bank, Savings Deposit Insurance Fund etc.) over the financial institutions in Turkey. In 2001, after the crisis, the *Banking Sector Restructuring Program* was initiated. Accordingly, the state overhauled the system comprehensively by (1) strengthening the private banks, (2) rehabilitating the insolvent banks transferred to SDIF (3) restructuring the state banks via operational, legal and administrative measures, and (4) improving the legal and institutional framework of the overall financial system via independent regulatory institutions (Kibritçioğlu, 2005: 3; BSRA, 2009). The Program introduced the following crucial regulations, *inter alia* (Akın, Aysan and Yıldıran, 2009: 80-82; BSRA, 2001);

- Having taken the ‘crony capitalism’ cases and ‘connected lending’ practices in the 1990s into account, the rules for bank ownership structure were improved. Accordingly, the limit of a bank’s exposure to a certain risk group was reduced from 75% to 25% of its net worth. Moreover, banks’ non-financial subsidiaries were prohibited from exceeding 15% of total net worth each, and the total such subsidiary share in net worth was bounded by upper limit of 60%. The personal liability was brought to the members of the board of directors and managers in order to avoid further abuses and bank failures.

- A standard for capital adequacy ratio of 8% was set in accordance with the international standards and the risk measurement techniques were expanded to incorporate the market risks, operational risks and off-balance sheet risks.

- Taken the disastrous consequences of currency risks in the 1990s, the banks were prohibited to take open positions (FX exposure) of more than 20% of their equity.

- The surveillance and supervision mechanisms were improved significantly. In addition to the examinations of independent BSRA, further external and internal regulations were enacted. Whereas the "external auditors are required to examine banks' financial statements according to the internationally accepted accounting principles; banks' own auditors are required to regularly submit reports on their banks' financial stance" (Akın, Aysan and Yıldıran, 2009: 18).

Third, the IMF-EU-US triangle heavily involved to the process as "external actors." The AKP government continued to strictly follow the IMF program which was designed by and implemented in the Kemal Derviş era. The strict fiscal and monetary policy envisioned in the IMF agreement was devotedly pursued by the AKP government. Moreover, there were other external anchors that helped improving the macroeconomic environment in Turkey. The foremost factor, in this context, had turned out to be Turkey's EU aspiration. As a matter of fact, the EU's involvement to the transformation of Turkey was one of the unique characteristics of this term in the sense that the AKP government succeeded to convince the EU to kick-off membership negotiations in October 2005. Şenses and Öniş (2007: 20-21) emphasize the role of the EU in the following way:

> … [A] distinct feature of the [post-2001] period was that the EU itself, for the first time, became a major source of economic and political change in Turkey, following the critical turning point in December 1999 involving the transition of Turkey to full candidate country status for full-membership… It is fair to say the real impact of the EU, in terms of both its conditions and incentives, is effectively felt in Turkey during the [post-2001] period, once the prospect of membership became a concrete possibility. The combination of IMF and the EU conditionality has tended to reinforce one another. At the same time, the EU conditions have helped to generate a major wave of democratization reforms in Turkey. These are also important in terms of their economic repercussions in the direction of improving institutional quality and the rule of law, which probably would not have been possible if the IMF alone was involved in the restructuring process.

In this context, the operational independence of the Central Bank of the Republic of Turkey (hereafter, CBRT) was put under the guarantee of the law. By doing so, it was aimed at creating necessary institutional atmosphere to conduct monetary policy without any political pressure (Bakır, 2006, 2007; Önder, 2005). Finally, the extraordinarily suitable conditions in global macroeconomic balances backed Turkey to recover in relatively a short time period and implement 'hard economic policies' (Boratav, 2009: 1-24).[94]

As a result of these macroeconomic regulations and conditions, the Turkish economy recovered quickly from the crisis, and entered a virtuous cycle with an uninterrupted high-growth performance for 27 quarters (Özcan *et al*, 2009: 243). Up to the global financial crisis' effects on Turkish economy in 2008, the economy showed a high performance in almost all macroeconomic indicators. In this period, the economy grew 6.8% annually; the GDP per capita increased from $3,529 to $9,221; the inflation was reduced from about 30% to less than 10%. In terms of public accounts, the imbalances were also alleviated remarkably. For instance, in the same period, the budget deficit (10% in 2002) was transformed into surplus in 2007 (1%). Similarly, the public sector debt stock was brought into Maastricht economic criteria with less than 40% in 2008 (see table 8; Ersel, 2009: 34-49).

[94] The first term of AKP era roughly refers to second term of Aznar government in office (2000-2004) and the first term of Zapatero governments (2004-2008). Hence, the AKP government also benefited from the extra-suitable global political economy conditions. Since these conditions and their impact on domestic economic policy making were discussed in the second part of the third chapter, they will not be duplicated here again.

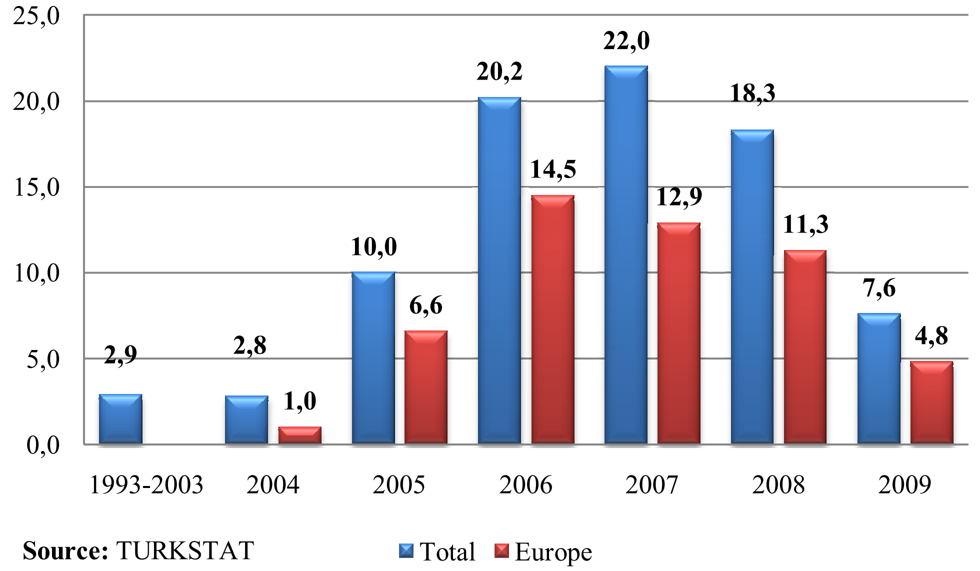
Table 8: Key Macroeconomic Indicators in Turkey (2002-2009)

	2002	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
GDP growth rate	6.2	5.3	9.4	8.4	6.9	4.7	0.7	-4.7
Unemployment rate	10.3	10.5	10.3	10.3	9.9	9.9	11.0	14.0
Per capita GDP ($)	3,529	4,548	5,802	7,056	7,643	9,221	10,440	8,590
Inflation (on CPI)	29.7	18.4	9.3	7.7	9.7	8.4	10.1	6.5
EU def. general government budget deficit/GDP	10.2	9.0	4.5	0.6	-1.2	1.0	2.2	
EU def. public sector gross debt stock/GDP	73.7	67.4	59.2	52.3	46.1	39.4	39.5	45.5
Public sector net debt stock/ GDP	61.4	55.1	49.0	41.6	34.0	29.5	28.2	32.5
Gross external debt stock / GDP	56.2	47.3	41.2	35.2	39.4	38.4	37.5	43.9
Interest payments/GDP	14.8	12.9	10.1	7.0	6.1	5.8	5.3	5.6
Current account b. (Billion $)	-0.6	-7.5	-14.4	-22.1	-32.1	-38.2	-41.9	-14.0
Current account b./GDP	-0.3	-2.5	-3.7	-4.6	-6.1	-5.9	-5.7	-2.3
Export (billion $)	36.1	47.3	63.2	73.5	85.5	107.3	132.0	102.1
Import (billion $)	51.6	69.3	97.5	116.8	139.6	170.1	202.0	140.9
Export/GDP	15.6	15.5	16.2	15.3	16.2	16.5	17.8	16.5
Import/GDP	22.4	22.7	25.0	24.3	26.5	26.2	27.2	22.8

Source: Treasury, State Planning Organization, TURKSTAT.

One other striking success of Turkish economy in the post-crisis period was the impressive increase in FDI flows into the country. During the 2004-2009 period, $78.1 billion amounted direct investment was attracted to the country.[95] It was by all means a novel phenomenon for Turkish economy in the sense that the overall performance of Turkey to attract foreigners was desperately poor beforehand (İzmen and Yılmaz, 2009). For example, the total FDI was just $2.9 billion between 1993 and 2003 (see figure 14). By another calculation, the total direct investment was merely $10 billion in the first two decades of Turkish liberalization, *i.e.* the years between 1980 and 2000 (Özcan *et al.*, 2009: 246).[96]

Figure 14: FDI Flows in Turkey (billion $)



Source: TURKSTAT

[95] How much of this investment flew into greenfield areas and how much of it came to buy existing financial and industrial firms will be analized in depth in Part 5.3.

[96] Both the external and internal factors affected surge in FDI flows (İzmen and Yılmaz, 2009: 191-200). Regarding the external factors, two developments stand out. First one of them is the global liquidity abundance, as underlined in different parts of this study. The second external stimulus is the EU membership process. As discussed above, the starting year of the negotiations, 2005, is also the year in which FDI flows increased dramatically (Sayek, 2007). On the internal factors, there are also two factors stand out. The first factor is the improved macroeconomic and legal environment. The second and final internal reason for the massive FDI inflows vis-à-vis the previous periods is the intense privatization implementations in line with the IMF program designed after crisis. Accordingly, the privatization of major public banks, state-owned telecommunication utilities, ports and many other public firms attracted the foreign investors (Atiyas, 2009). Between 2003 and 2009, Turkish state realized $44.3 billion worth privatization implementation; the total amount of which was just $8 billion in cumulative terms between 1985 and 2002 (Privatization Administration, 2010).

5.2. Transformation of Finance Capital after the 2001 Crisis

As mentioned above, the 2001 crisis was the severest economic disaster for Turkey in terms of many indicators. Yet, from another perspective, it created 'window of opportunity' for the transformation of political economy structure and state-business relations in Turkey (Keyman and Öniş, 2007: 141-148). In fact, the destructive consequences of the crisis influenced almost all classes of the society. The 'intensity of the shock' helped the creation of a broad and strong consensus among the different parts of the society: People understood a fact very well that the problem regarding the economy was not a simple 'liquidity shortage' or improper crisis-management strategy; instead, there were very deep-seated structural problems in the financial and reel pillars of the economy (Öniş, 2003). This clear fact and broad understanding, in turn, paved the way for radical reforms in the post-crisis episode. In this suitable circumstance, the reformist 'policy entrepreneurs' found a large room to maneuver and they were backed by influential business associations like TÜSİAD and The Association of Independent Industrialists and Businessmen (hereinafter, MÜSİAD) as well as by other associations named as The Associations of Industrialists and Businessmen (hereinafter SİADs). The progressive/dynamic fractions of Turkish finance capital also supported a new mode of capital accumulation strategy (Gültekin-Karakaş, 2009a). The government's determination to implement the economic restructuring reforms was underpinned by its pro-European stance in the political and foreign policy arena. The pro-EU reforms in this period, and the improved relations with the EU enabled the government to create a broad-based interclass alliance. Hence, the macroeconomic environment and institutional framework in the country was further consolidated with the help of Europeanization process. As a result;

> For the first time in many years, Turkey found itself in the midst of a virtuous cycle with economic and political reforms as well as key foreign policy initiatives feeding into one another, helping to produce a favorable environment for economic growth (Öniş, 2006: 208).

During this period, Turkish finance capital and state's role in the economy were subjected to significant changes. In this context, this part aims to explicate the restructuring of domestic political economy and the emergence of a new competitive finance capital with special reference to the way by which the Turkish state played a major role.

5.2.1. Bifurcation and Restructuring in the Finance Capital

The first pillar of the transformation in Turkish finance capital was the developments in the financial system, mainly the banking sector, the area of which 'pro-active' state policies played crucial role.[97] In order to put the analysis into a political economy context, it is important to investigate the bifurcation in Turkish finance capital in late-1990s.

After the 2001 crisis, the structure of Turkish financial system (hereinafter, TFS) changed dramatically. As mentioned, the political intervention and the dominance of public share within the banking sector have increased throughout the 1990s; which in turn triggered the elaboration of banking licenses. As a result, the number of banks, which were 66 in 1990, increased to 81 in 1999. These banks were not 'doing banking' in real sense because they were heavily investing in the treasury bills and bonds instead of disbursing credits to industrial economy. In other words, the dominant capital accumulation strategy in Turkish financial sector was based on *rentier profits* extracted from the state apparatus (Yaman-Öztürk and Ercan, 2009; Gültekin-Karakaş, 2009b). As a natural result, the credit allocation mechanisms of many banks were significantly politicized and economically irrational. The 2001 crisis put a clear end to the rentier type of capital accumulation strategy and wiped most of these banks out of the scene so that the total bank number decreased to 59 immediately after crisis. The consolidation in the sector continued in the mid-2000; therefore, the bank numbers decreased to 49 as of 2009 (CBRT, 2010: 39). The consolidation in financial sector was the result of *intra-capital restructuring* of the finance capital in Turkey. In fact, the exhaustion of the rentier type of accumulation strategy in the early 2000s required the restructuring of the financial firms and their affiliated hold-

[97] As a matter of fact, the 'financial system', as a term, is broader than the 'banking system' and covers the latter. In Turkey, however, the banking sector composes the 88% of the Turkish financial system and creates the 94% of entire profits (CBRT, 2009). As a result, this study uses the two concepts interchangeably.

ings. In the new context, the dynamic accumulation strategy that based on internationalization and competition on world scale instead of state-dependent accumulation mode turned out to be the only sustainable way for Turkish finance capital. The Banking Sector Restructuring Program and the financial reforms were materialized with this shifting strategy in mind.

However, it is crucial to underline at this point that the restructuring in question is by no means a sole state project or a project only dictated by the international financial institutions like IMF.[98] On the contrary, the diverging paths within the finance capital and intra-capital fractions' changing attitudes turned out to be the other crucial non-state factors to be taken into consideration. To put the intra-capital bifurcation into context, this study follows Gültekin-Karakaş (2009a, 2009b) to classify the diverging strategies of finance capital in Turkey. For the sake of categorization, the position of finance capital can be classified under two basic groups. On the first fraction, there were the conglomerates that relied on 'primitive capital accumulation' strategy in the sense that the overwhelming share of their accumulation was realized thanks to the rentier type of profits extracted from the investments in treasury bonds and bills (Gültekin-Karakaş, 2009a: 106-112). This fraction, in the industrial sector, is characterized by the low-value added and traditional production that did not help them to gain competitive advantage in world economy. As a result, they mainly depicted state-dependent characteristics and opted for state protection and subsidies through different means. The holdings in this fraction could not establish a strong capital structure sustainable in the long-run due to their concentration on the traditional and fragmented production sectors like textile, construction and media (Gültekin-Karakaş, 2009b: 245). Their survival, in this context, became possible on the rentier capital accumulation throughout the late 1980s and 1990s (see Part 4.3 for details). In fact, the high state-indebtedness provided a type of 'financial protection' for these firms to survive without facing real competition in world scale. However, this strategy crashed in the late 1990s due to the fiscal crisis of the state. Unsurprisingly, the bankrupted financial institutions came out of the holdings that overwhelmingly relying on 'primitive accumulation' strategy. Accordingly, the banks belonging to the

[98] For this kind of interpretation of restructuring of Turkish finance capital, see Manisalı (2003).

Çukurova Holding (Pamukbank), Yaşar Holding (Yaşar Bank), Nergis Holding (Interbank) Medya İpek Holding (Etibank), Cıngıllıoğlu Holding (Demirbank) etc. declared their bankruptcy or fell into financial difficulties in the early 2000s (Ergüneş, 2008: 280). The following table gives a list of the holdings which lost their banks during the restructuring process in Turkey. It is striking that most of their investment sectors concentrated on the traditional low-value added ('primitive accumulation') areas.

Table 9: Holdings Relying on 'Primitive Accumulation' Model (Late-1990s)

Holding	Main Sectors/Operation Areas
Çukurova	Telecommunication, finance, media, manufacturing
Yaşar	Food, paint, beverages, finance
Toprak	Ceramic, hygiene, energy, paper, mining, finance
Süzer	Construction, media, finance
Ceylan	Construction, media, finance
Korkmaz Yiğit	Construction, media, finance
Balkaner	Construction, finance
Sürmeli	Construction, finance, tourism
Cıngıllıoğlu	Finance, energy
Bayındır	Construction, media, finance, manufacturing, health
Demirel	Textile, forest products, finance
Garipoğlu	Textile, chemicals, plastic, food, metal, finance
Nergis	Textile, finance
EGS	Textile, finance
Rumeli	Construction, cement, telecommunication, energy, media
Source: Adapted from Gültekin-Karakaş (2009a: 111)	

The other fraction in finance capital was the conglomerates relying on the 'dynamic accumulation' strategies in the sense that these corporations did not only rely on the treasury to sustain their financial profitability (Gültekin-Karakaş, 2009a: 113). It is true that these financial institutions also significantly benefited from the crony capitalistic relations throughout the 1990s, yet they nevertheless succeeded to survive when the fiscal crisis of state hit the economy in early-2000s. Secondly, these conglomerates realized the unsustainable path in Turkish political economy in the 1990s and systematically improved their capital accumulation modes by investing in the high-value added sectors.

In the industrial realm, they veered towards newly emerging sectors and regions via 'dynamic accumulation' and *internationalization* strategies. The most popular sectors for these conglomerates had turned out to be automobile, finance, high-technology products and durable goods. They used their financial arms relatively better than the first fraction and invested in their banks to improve their competitive position in world scene (Ergüneş, 2008: 246-247). Koç Holding's Koçbank, Sabancı Holding's Akbank, Doğuş Holding's Garanti Bank and İş Holding's İşbank became the organic supporter of these holdings in their high-value added investments during the internationalization process in 2000s. For instance, Sabancı Holding divested from the traditional textile sector and concentrated on the high-technology sector by acquiring DuPont in 2004 for $108 million. Eczacıbaşı Group acquired 51% of the ceramic division of Villeroy&Boch; Ülker Group acquired famous Belgium chocolate firm Godiva for $850 million; Anadolu Group acquired beer firms Krasny Vostok in Russia and Lomisi in Georgia; Koç group acquired washing machine producer Blomberg, electronic firm Grundig and white goods producer Artic (Gözütok, 2009). In summary, instead of concentrating on the state-dependent growth and accumulation strategy, the second fraction of Turkish finance capital preferred global integration.[99] The following table gives a list of the holdings whose banks had become quite successful after the restructuring process in Turkey. It is striking that most of their investment sectors concentrated on the high-value added ('dynamic accumulation') areas.

[99] The Customs Union Decision in 1996 must be underlined at this point that the liberalization of customs duties and tariffs with the EU member countries in industrial goods forced the Turkish firms to face with fierce competition with their European counterparts. The firms operating in automotive, steel, durable goods, etc. found themselves under equal conditions after the abolition of protectionist trade instruments. For a detailed technical account of Customs Union Decision, see Özen (2002).

Table 10: Holdings Relying on 'Dynamic Accumulation' Model (Late-1990s)

Holding	Main Sectors/Operation Areas
Koç	Automotive, durable goods, information tech., finance, trade, tourism
Sabancı	Automotive, tire-rubber, information technology, finance, chemicals
İş Bankası	Glass, chemical, cement, automotive, ceramic, tire-rubber, plastics, finance, leather
Doğuş	Finance, automotive, food, retailing
Zorlu	Home textile, durable goods, energy, finance
Tekfen	Construction, industry, finance, retailing
Oyak	Automotive, defense industry, finance, information technology, foreign trade, energy
Doğan	Media, finance, trade, steel
Fiba	Retailing, finance
MNG	Construction, finance
Anadolu Endüstri	Beverages, automotive, finance
Source: Adapted from Gültekin-Karakaş (2009a: 111)	

Having taken the bifurcation of the intra-capital in Turkey, this study interprets the Banking Sector Restructuring Program as part of a wider political economy transformation in the financial system. Accordingly, the aim was to transform Turkish finance capital from *state-dependent rentier* structure into a *globally integrated competitive* one. In the process, the state (with the IMF support) played active role to liquidate the financial institutions relying on 'primitive accumulation' and helped the internationalization of financial conglomerates by promoting 'dynamic accumulation' strategy. The second fraction of finance capital, on the other side, encouraged the state for a new form of capital accumulation strategy and state-business relations (Gültekin-Karakaş, 2009b: 251). Thereby they supported the post-crisis reforms. This point is implied in the following quotation of Rahmi Koç, the chairman of Koç Holding;

> "The difficulties of 2001 may be likening to clean the decks. The strong firms that do sustainable business survived the storm and had become stronger. The firms who grew extraordinarily thanks to political influence and favor were wiped out from the scene due to the harsher market con-

> ditions and changing government policies. I see this as an important and promising development for the *transformation of business culture* in Turkey. The inability of making money ought to be clear for the firms that do not add value to their products and services (quoted in Gültekin-Karakaş, 2009b: 246)."

From a political economy perspective, the restructuring operation refers to a 'who-gets-what' question in the sense that the old-traditional type of finance capital lost the game and left the scene, while the pro-integrationist fraction succeeded. The power shift in domestic finance capital, in turn, paved the way for a new type of financial system that has the capacity to play its main intermediary role in the economy in line with the international standards. Both the performance of Turkish economy and the international relations of Turkey benefited from the reshuffling in finance capital. In comparative perspective, the transformation of Turkish finance capital resembles the Spanish example, since it was also the case for Spain that during European integration process the progressive, pro-integrationist fraction pressured hard to convince the government(s) for upward restructuring of the economy. Yet, the Turkish case diverges from the Spanish example in terms of another vital aspect, the ownership perspective.

From an ownership perspective the Turkish political elite in this period did not depict any sign to merge the state banks or encouraged the private banks to unite with each other in order to create competitive 'national champions.' Opposite to the Spanish case, the domestic financial system was not protected from the incoming foreign investors to Turkey. In other words, the Turkish elite did not aim to protect the 'Turkishness' of finance capital as the Spanish elite did. Thanks to Turkey's 'open-door' policy and unrestrictive regulations, the foreign penetration intensified after 2004. Between November 2004 and June 2007, 14 Turkish banks were acquired by foreigners wholly or partially. The total amount paid to these banks was $26.4 billion, which composes approximately 50% of all foreign direct investment Turkey attracted in the 2005-2007 period (Özel, 2008: 267-268). [100] Many Turkish banks were either

[100] In retrospect, there are different reasons for the intense foreign penetration into the Turkish banking system. On the one side, 'pull factors' like the profit opportunities in Turkey, the macroeconomic performance of Turkish economy, and government's wholehearted open-door policy for privatization and foreign investment penetration improved Turkey's position as a 'emerging star' for the foreigners. The profit opportunities in the Turkish banking sector were quite abundant that

taken over by or merged with foreign capital. The following table tabulates the acquisitions with details regarding the transactions concluded.

Table 11: Fixed Capital Investment into the Turkish Banking Sector (2004-2007)

Bank	**Date**	**Buyer**	**Percentage (%)**	**Purchase amount (million $)**	**Market V./Book V.**
TEB	Nov. 2004	BNP Paribas (France)	50	515	2,1
Dışbank	Dec. 2004	Fortis (Belgium)	89,3	1286	1,8
Yapı Kredi	May 2005	Koç+Unicredit (İtaly)	57,4	2592	1,03
Garanti	Aug. 2005	Doğuş+GE Finance (USA)	25,5	6100	2,6
C Bank	Dec. 2005	Bank Hapoalim (Israel)	57,6	196	3,2
Finansbank	Apr. 2006	NBG (Greece)	46	5050	3,8
Tekfenbank	May 2006	EFG Eurobank (Greece)	70	260	3,6
Denizbank	May 2006	DEXIA (Belgium)	75	3250	3,9
Şekerbank	June 2006	Vakıf+Turan Alem (Kazakhstan)	34	783	3,55
Adabank	July 2006	The International Invest. (Kuwait)	100	31	0,12
Tat Merril	Aug. 2006	Merrill Lynch (USA)	100	..	..
MNG Bank	Sept. 2006	The Arab Bank	91	174	3,4
Akbank	Oct. 2006	Citigroup (USA)	20	3100	2,8
Abank[101]	Nov. 2006	Alpha Bank (Greece)	47	436	3,57
Oyakbank	June 2007	ING Bank (Holland)	100	2673	3,26
Source: Adapted from Özel (2008: 268)					

assets over GDP ratio was merely 76%, obviously quite below the EU averages which was over 300% in 2006 (CBRT, 2007). On the other side, there were important 'push factors' that forced the banks in advanced countries to invest in emerging markets like Turkey. The low profit opportunities due to saturated domestic markets, the regulatory restrictions, and fierce competition at home 'push' the financial firms to internationalize their portfolio (Aysan and Ceyhan, 2009: 90).

101 It was not ratified by the Banking Regulation and Supervision Agency.

Parallel to the growth in Turkish economy that entered into a virtuous cycle after the 2001 period and thanks to the restructuring reforms, banking sector grew faster than the overall economy which in turn helped increasing the financial depth in Turkey. The total assets increased from $132 billion in 2002 to $561 billion in 2009, thereby the total assets over GDP ratio ascended from 57% to 87.4% (CBRT, 2010: 40). In other words, the financial depth, thus the efficiency of financial system improved considerably. The same pattern is also valid for the deposits and the credits. The deposits over GDP ratio increased from 35% in 2003 to almost 54% in 2009, whereas the credit over GDP ratio increased from 17% in 2003 to 43%. More important than that, the credit over deposit ratio improved spectacularly by reaching from 49% to almost 83% during the same period (BRSA, 2007). This is a very important indicator from the perspective of this study since it shows how the banks are fulfilling their intermediary role after the abovementioned intra-capital restructuring of the financial system. When the trend is interpreted, it is possible to reach the conclusion that the Turkish banks are not anymore resting on *rentier capital accumulation mode* thorough state apparatuses.

Table 12: The Depth Indicators of the Turkish Banking Sector (2003-2009)

Years	Deposit/GDP	Credit/GDP	Credit/Deposit
2003	35.1	17.2	49.1
2004	35.2	19.8	56.3
2005	38.8	25.3	65.3
2006	40.6	30	74
2007	41.7	34.6	82.9
2008	48	40	84
2009	54	43	81
Source: CBRT			

In conclusion, the Turkish financial system in the post-crisis period transformed and consolidated significantly. The restructuring of capital had important political economy consequences for Turkey. As a result of the abovementioned transformation, Turkish financial firms, first, consolidated their position in the economy; second, they acted as a *change agent* to transform industrial capital in Turkey. The changing economic structure; thereby, power relations in the country, inevitably, spilled-over into the foreign policy priorities of Turkey. Moreover, the 'pro-active' state policies in the process played undeniable role. The conclusion part of this chapter will attempt to show the critical role played by the state. Yet, beforehand, it will be apt to map out another aspect of the transformation of finance capital in Turkey as a complementary to the financial transformation in the post-crisis era.

5.2.2. The New Actor of Turkish Finance Capital: 'Anatolian Tigers'

The aforementioned restructuring of intra-capital in Turkey refers to one aspect of Turkish finance capital. There is one other aspect that has the potential to influence the political economy dynamics: The 'Anatolian Tigers.' This part of the study aims to reveal the rise of 'Anatolian Tigers' as part and parcel of the changing dynamics of Turkish political economy.

In order to understand the changing dynamics of industrial capital in Turkey and its relation with the role of the state and finance, one has to explicate the changing dynamics of state-society relations in the 21st century at fist hand.[102] Since the exhaustion of the dominant capital accumulation model in the 1990s and the state-finance capital relations fit into the general state-society context, depicting the broader framework is *sine qua non* from a political economy vantage point. In order to conceptualize the transformation of state-society relations, it is an ideal take-off point to deconstruct the mainstream 'state-centric modernization' in Turkey. According to Keyman and İçduygu (2005: 1-19), 'state-centric modernization' had four major elements.

The first one was the *strong state tradition* in Turkey.[103] Accordingly, the state up to the recent decades "acted as the privileged and sovereign subject operating almost completely independently from society and assuming the capacity to transform society from above" (Keyman and İçduygu, 2005: 5) and played "significant economy and

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[102] For an analysis of the changing nature of state-society relations with the context of 'center-periphery' framework, see Bingöl and Çolak (2010).

[103] For historical and structural backdrop of strong state tradition in Turkey, see Heper (1985).

society shaping role" (Buğra, 1998: 523). The second one was the *national developmentalism*, which mainly refers to the "anti-liberal and state-centric modes of operation, involved a planned, import-substituting industrialization as the proper prescription for development" (p. 6).[104] The third aspect of 'state-centric modernization' was the equivalent of national developmentalism in the societal affairs, namely the *organic vision of society*. In this perspective, the sociological ground of society was defined "not on the basis of class or individual, but on the basis of 'duties and services' of different occupation groups to the state" (p. 6). Within this context, the final characteristic of 'state-centric modernization' was defined as the *republican model of citizenship*, defined as following; "while giving the masses political rights, demanded at the same time that they accord normative primacy to the national interest over individual freedoms, to duties over rights, and to the state sovereignty over individual autonomy (p. 6).

The 'state-centered modernization' started to be challenged during the late-1980s and 1990 partially thanks to the changing political economy dynamics in Turkey (Demir, Acar and Toprak, 2004: 168). The legitimacy crisis of 'state-centric modernization' became more apparent during the late-1990s and deepened in the 2000s. However, one of the crucial turning points was the 2001 crisis in the sense that the crisis triggered the legitimacy crisis of the strong-state understanding due to at least two main reasons. First, people understood that such a kind of strong-state is protected from all kind of critics; thereby immune from accountability and transparency standards as surfaced in banking crisis. This privileged position encouraged the state-elites to identify themselves with that of the 'transcendental' nature of the state. In this juncture, the business elites became organically dependant to the state apparatus, and their fortune is mainly shaped by the non-economic motives, which in turn triggered the rent-seeking crony capitalist economic structure.[105] Yet, the 2001 crisis revealed very clearly that this kind of relationship was by no means sustainable in the long-

[104] For a comprehensive discussion of national developmentalism in Turkish political economy, see Keyder (2004).

[105] From a political economy point of view, this understanding has deep *historical* roots that "the business class [in Turkey] did not emerge with its own dynamics. It was a struggle to create a bourgeoisie with the support of the state and the bureaucracy because it had no socio-cultural background regarding entrepreneurship" (Uygur, 2009: 213).

run. In other words, “the economic crisis has unearthed the legitimacy and governing crisis of the state whose clientalist and corruption-producing mode of regulation of societal affairs has marked the nature of Turkish politics in the 1990s” (Keyman and Koyuncu, 2005: 107) as elaborated on the previous part (see Part 5.2.1). Second, the political crises in the second-half of the 1990s and the earthquake disasters along with the economic turmoil convinced the people that the state was strong only as a ‘control mechanism’, yet it was quite unsuccessful as a ‘problem-solving entity’ (Keyman and İçduygu, 2005: 9-10). In Koyuncu and Keyman’s (2005: 109) words, “the strong state turned out to be too strong in its attempt to impose itself on society, and too weak in governing its society and [and economy] effectively” (Keyman and Koyuncu, 2005: 109).

Having taken this broader political economy framework into consideration, there is one vital dynamic for the change in state-society relations in general and state-finance capital relations in particular. This development is the consolidation of a new bourgeoisie rooted in Anatolia, which is called as the ‘Anatolian tigers’ (Yavuz, 2006: 1; Yankaya, 2009; Özdemir, 2006). Starting from the 1980s, during the Özal period, a conservative and self-sufficient Anatolian capital came to the fore and gradually increased its influence over the years (Jang, 2006).[106] MÜSİAD as the main representative of the Anatolian capital and the other SİADs moved towards the center of economic scene from the very periphery of Turkish capitalism (Özbudun and Keyman, 2002; Kösebalaban, 2007). The Anatolian cities like Konya, Gaziantep, Denizli, Eskişehir, and Kayseri, in which MÜSİAD and other SİADs are quite active, turned out to be the new powerhouses of Turkish manufacturing industry (Lorasdağı and Keyman, 2010). For example, MÜSİAD, established in 1990, reached to a power to have 30 nation-wide branches, 92 connection points in 43 countries and 4700 members all around Anatolia as of 2010.[107] From a political economy perspective, the economic and political power started to shift to economic actors that were ex-

[106] Turgut Özal is to be considered as one of the important political actors that provided suitable back-drop for the emergence and consolidation of Anatolian finance capital in the 1980s. His outlook and liberal export-oriented vision motivated him to support the Anatolian cities to produce and export during his leadership. For details of Özal’s approach towards Anatolian capital, see Jang (2006: 100-102).

[107] See MÜSİAD’s official web-site http://www.musiad.org.tr.

cluded from the state mechanisms beforehand. This power shift, to a certain extent, changed the domestic balances in political and social landscape as well (Demir, Acar and Toprak, 2004). It is quite important in terms of the comparative perspective of this study that the newly emerging capital and its integration into the mainstream circles to create a 'total synergy' for Turkish political economy is neither materially supported nor strategically guided by Turkish state (Bingöl and Çolak, 2010: 105). This point is to be elaborated on the final part of this chapter in the scope of the state policies.

In short, the legitimacy crisis of 'state-centered modernization' in the late 1990s, the crisis of the rentier/crony capitalistic form of capital accumulation and the emergence of a new Anatolian bourgeoisie created a trilateral pressure mechanism for a change in state-market relations in Turkey. Under this new political economy context, TÜSİAD, the representative of Istanbul capital, and the MÜSİAD and other SİADs changed their outlook in terms of economic governance and socio-political relations, the details of which will be discussed in the final part.

In line with the new perspective for state-society and state-capital relations, the economic elite created new pressures for a different policy formulation not only in domestic affairs, but also in foreign policy issues. First of all, Turkey's integration into global economy and the EU process forced the business groups to adapt themselves to the new economic mentality of world political economy. Accordingly, the new economic rationality, which necessitates investing in high-value-added products, making long-term strategic decisions, and changing economic mentality from a *clientelistic approach* to a *rule based understanding*, turned out to be the major force of change (Koyuncu, 2006). The Turkish state, in this context, attempted to guide the private sector to compete on the basis of their 'competitive advantage' instead of the 'political network.' Once the business associations internalized the 'hard recipe' that they had no chance but to obey the rules of the game in the new international political economy, they strongly supported EU membership process as the most appropriate method of economic modernization in Turkey. The economic interest groups, mainly TÜSİAD, who were quite skeptical about a possible integration with the European Economic Community in late 1970s (see Chapter 4), started to change their attitudes gradually after mid-1990. Most of them pursued lobby activities at domestic and international front simultaneously.[108] For instance MÜSİAD, which was arguing in the mid-1990s that "Turkey was in full contradiction with the EU member countries in historical, religious and cultural terms" (Yankaya, 2009: 10), changed anti-EU rhetoric and became a member of the European small and medium enterprises (SME) network of CEA-PME "for further Europeanization of Turkish economy" (Yankaya, 2009: 11). The positively changing attitude of the SİADs was also revealed by a series of interviews by scholars (Özbudun and Keyman, 2002). Since Turkey was given candidate country status in Helsinki in 1999 and the negotiations were kicked-off in 2005, the business support for Turkey's membership bid peaked in the early 2000s (Koyuncu, 2006: 137-142).

Apart from the EU membership process, the business associations stated their vocal support on Turkey's new foreign policy approach towards its neighbors. In this new context, Turkey in the AKP era, especially after 2007 elections, declared to follow a 'zero problem policy' with its neighbors (Davutoğlu, 2001; Kirişçi, 2006; Aras, 2009).[109] This foreign policy formulation is based on Turkey's 'soft-power' capabilities and foresees a 'multi-dimensional approach' due to Turkey's "unique space in terms of geography" (Davutoğlu, 2008: 78). In line with the new foreign policy paradigm, Turkey devoted most of its energy to mediate the peace negotiations between Syria and Iraq; Israel and Palestine; and to facilitate the talks between Iran and the Western world. Recently, Turkey remarkably fixed its bilateral problems with Syria, Iraq and Iran (Kutlay, 2009).[110] What is important in terms of this study is that the major driving force for the 'soft-power' of Turkish foreign policy has been the econ-

[108] In the fourth chapter it was underlined that TÜSİAD did not support 'pro-European' circles in the 1980s. Only after mid-1990s that TÜSİAD and after 2000s MÜSİAD raised their voice in favor of EU membership process. For details of TÜSİAD's EU perspective, see Uğur and Yankaya (2008). For details on MÜSİAD's EU perspective, see Yankaya (2009).

[109] The academic groundwork of Turkish foreign policy in the new era was formulated in Ahmet Davutoğlu's book (2001), Stratejik Derinlik: Türkiye'nin Uluslararası Konumu (*The Strategic Depth: Turkey's International Position).* Prof. Dr. Davutoğlu was the Chief Adviser to the Prime Minister and Ambassador at large by the 58th Government of the Republic of Turkey. He continued to serve in the 59th and 60th Governments. Davutoğlu was appointed as Foreign Minister on May 1, 2009.

[110] For a detailed account of Turkish activism in the Middle East in the AKP era, and its relation with Turkey's 'changing national role conception', see Aras and Görener (2010).

omy and trade. Putting it another way, Turkish finance capital has turned out to be the practical hand of Turkish policy-makers in the region. The new mode of capital accumulation that became more visible in the post-2001 period encouraged the Turkish finance capital to invest in abroad. Similar to Spain's Latin American case, Turkish business elite started to explore the mass economic and financial opportunities in the neighboring countries and backed the state to help stabilizing the region for the sake of their interests, *inter alia*. In other words, the finance capital in Turkey gradually increased its power in foreign policy formulation akin the Spanish case. The interaction and mutual interdependence between Turkish businessmen and their counterparts turned into one of the practical hands of Turkish diplomacy. The leading airlines operator in Turkey, Turkish Airlines, for instance, increased its flying destinations to more than 124 points in 80 countries. According to THY's CEO the demands of Turkish businessmen is one of the reasons for them to multiply the flying destinations in the last couple of years (Donat, 2010). Turkish construction firms, most of which are 'Anatolian Tigers', invested more than $20 billion in Russia over the last decade (Primakov, 2010) and about $35.5 billion in the Middle East (Yücetaş, 2010). Apart from Middle East, Turkish firms also increased their investment stock gradually in Turkic Republics. For instance, these firms invested more than $3.6 billion in Azerbaijan and $628 million in Kazakhstan.[111] Having taken this unprecedented situation into consideration, some Turkish scholars approach Turkey in this period as a country "in the process of becoming a trading state" (Kirişçi, 2009). The increasing gravity of economy in new Turkish foreign policy, especially in the Middle Eastern and Asian countries, is summarized as follows;

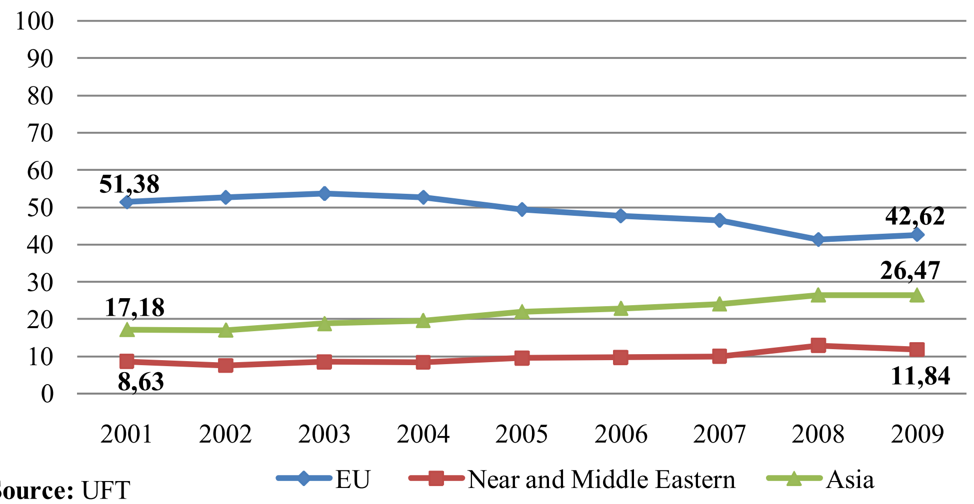
> Turkey mainly relies on economic instruments in improving relations with its neighbors. The economic instruments, mainly trade and investment projects, are used as facilitators in foreign policy. In other words, the recent political openings have found their ways via bilateral economic relations. For example, Turkey's recent engagement with Syria [in 2009] resulted in the reciprocal abolishment of visa requirements… Turkish and Syrian businessmen are preparing for joint projects in the tourism and industrial sectors. The bilateral trade relations (which expanded to 1.1 billion dollars in 2008 with a 40 percent increase vis-á-vis the previous year) are expected to further increase in the coming years…The other example is Iraq. Turkey aims to expand bilateral trade relations with Iraq from 5 billion dollars to 20 billion dollars in a short time span. Moreover, Turkish construction firms have been constantly searching for

[111] For details on the issue, see www.treasury.gov.tr.

> ways to take an active part in the possible construction projects, which are projected to total 500 thousand residences…The last example is Turkish-Iranian bilateral economic relations. [In 2009], the trade volume between the two neighboring countries reached 10 billion dollars; this figure was about 350 million dollars just ten years ago… Turkish investors have investments in Tabriz, the focal point of the Iranian economy, and they mainly concentrate on textiles, food, chemicals, gas exploration etc. It is estimated that Turkish investments in Iran have reached up to 1 billion dollars and many other investment plans are waiting to be signed on the negotiation table (Kutlay, 2009).

In this context, two major economic developments came to the fore. First, the neighboring countries turned into profitable trade partners for Turkish finance capital after the 2001 era.[112] Parallel to the rise in Turkey's total foreign trade (increased from $72 billion in 2001 to $333 billion in 2008), Turkey's total trade with Middle Eastern and Asian countries increased from $18.7 billion to $131 billion.[113] More importantly, the neighboring countries' share in Turkish foreign trade increased at the expense of the EU market. As the following figure shows, in the period in question, EU's share in Turkish foreign trade declined from 51.38% to almost 42%; whereas Turkey-Asia and Turkey-Near and Middle Eastern foreign trade increased to 26.5% and 12%, respectively (see figure 15).

Figure 15: Regions' Share in Turkish Foreign Trade (%)



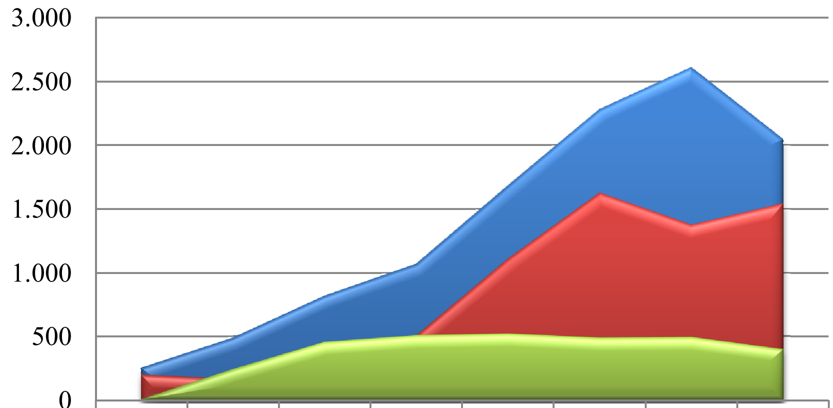
Source: UFT

[112] The intensification of Turkey's economic links with the neighboring countries and its impact on recent shift in Turkish foreign policy is an under-studied and under-theorized issue in political economy literature.

[113] Calculated from the data provided by Undersecretariat of Foreign Trade.

The second economic development that improved Turkey’s visibility in foreign affairs is the changing outward FDI dynamics. As a net FDI receiver country, Turkey has always needed FDI in order to compensate the savings-investments gap in the balance of payments statistics. Concomitant to the rising FDI inflows in the post-2001 period, Turkey’s outward investment stock also increased. Accordingly, between 2002 and 2009, Turkey’s outward direct investment stock reached at $11.2 billion, $3.1 billion of which was directed to the Asian countries (including Near and Middle East, see figure 16). Albeit these figures correspond to minuscule aggregates in comparison with the Spanish case, it nevertheless, shows the rising importance of Turkish finance capital in Turkish foreign-policy making agenda.

Figure 16: Turkey's Ourward Investment Flows (million dollars)



Source: CBRT

	2002	2003	2004	2005	2006	2007	2008	2009
Total outward FDI	251	486	815	1.065	1.677	2.275	2.604	2.041
Europe	199	166	315	504	1.104	1.621	1.370	1.538
Asia	4	240	452	504	518	485	490	395

To sum up the argument so far, finance capital-state relations in Turkish political economy changed dramatically in the post-2001 period. The new context enabled overhauling the economic and financial structure and introduced a new perspective for the international presence of Turkey, especially in her neighboring region. The improvements in the domestic structure, in turn, provided a fertile ground for finance capital to push for more dynamic and pro-active foreign policy formulation. As tried to be shown, the state policies, both in terms of financial regulation and policy formulation, had become very important factors to be neglected. Yet, are all these developments enough to label Turkish state as 'pro-active' in this period like the Spanish case? The next part aims to search for an answer to this question.

5.3. The Political Economy of 'Pro-active' Turkish State: An Alternative Track?

Can the developments in the post-2001 period and the state policies that played important role in restructuring the finance capital in Turkey be justified to depict Turkey as an emerging 'pro-active' state? In order to answer this question, one has to refer to 'pro-active' state's basic characteristics. The 'pro-active' state, by definition, refers to a state capable of (1) transforming the industrial and financial structure of the country in question, (2) regulating the market and relations among the market actors, and (3) redistributing the wealth efficiently within the society. From these criteria's point of view, the rest of the chapter will try to delineate Turkish state's 'pro-activeness' capacity.

In terms of state's transformative capacity, there are challenging shortages stand out. First of all, Turkish industry has an important competitiveness problem (see table 13). It is true that Turkish firms developed an outward-oriented perspective and internationalize to a certain point. The Research and Development (R&D) activities, for instance, increased in the post-2001 period. The R&D expenditures increased from $3 billion in 2002 to $6.8 billion in 2008. During the same period, R&D expenditure per capita increased from $46 to $98. The number of full-time equivalent R&D personnel increased from 28,964 in 2002 to 67,244 in 2008, which corresponds to 132% increase. By another measure, the number of scientific publications increased from 10,314 in 2002 to 22, 738 in 2008. Similarly, number of international patent applications rose to 361 from 85 in the same period.[114] In summary, Turkish state achieved an undeniable success in pouring more sources into the R&D activities. In the final analysis, however, the comparative figures still far from being promising. For example, while Malaysia, South Korea, and China are able to devote 55%, 32% and 31% of their total exports to high-technology products, this ratio in Turkey

[114] The figures are retrieved from Turkish Statisticial Institute's database, *TURKSTAT*.

is just 2%, which in fact depicts the competitiveness problems of Turkish export sector (Öniş and Bayram, 2008: 17). The following table tabulates the relatively dismal picture for the competition ability of Turkey. Accordingly, Turkey is ranked 61st out of 133 countries in 2009.

Table 13: Turkey's Competitiveness Performance (2009-2010)

Main Indicators	**Rank**
GCI 2009–2010 (out of 133)	61
GCI 2008–2009 (out of 134)	63
GCI 2007–2008 (out of 131)	53
Basic requirements (69)	
1st pillar: Institutions	96
2nd pillar: Infrastructure	62
3rd pillar: Macroeconomic stability	64
4th pillar: Health and primary education	74
Efficiency enhancers (54)	
5th pillar: Higher education and training	73
6th pillar: Goods market efficiency	56
7th pillar: Labor market efficiency	120
8th pillar: Financial market sophistication	80
9th pillar: Technological readiness	54
10th pillar: Market size	15
Innovation and sophistication factors (58)	
11th pillar: Business sophistication	52
12th pillar: Innovation	69
Source: World Economic Forum, *Global Competitivess Index*, 2009-2010.	

The other vital problem for the competitiveness of Turkish industrial sector, as opposite to Spain, is the lack of productive links between financial institutions and the industrial sector. Access to the credit sources had always been one of the main problems for the small and medium enterprises (SMEs) in Turkey. This situation became more difficult after the surge of foreign capital into Turkish banking system. Actually, "one of the obvious limitations of the new environment is that it cannot make a sufficient contribution to the financing of the real economy, as evidenced in the weak share of savings and fixed capital investments in GDP, whilst a considerable amount of household disposable income was transferred to the banking sector." (Bakır and Öniş, 2010: 103). The foreigners' participation in the Turkish financial system risks the Turkish SMEs to access the credit, since they are not equipped adequately to fulfill the necessary credit and rating standards. From a political economy perspective, the issue turns out to be a 'who-gets-what' question; because, the foreign penetration into Turkish system altered the domestic power balances and capital accumulation strategies. As a result, a possibility emerged for the Turkish banking elites to integrate themselves with the international markets at the expense of domestic SMEs. This, in turn, may result in delinking the relations between fragile and small domestic finance capital and big business and transnational capital.

Furthermore, if the state policies are examined, it seems that the short-term profitability motives dominated the long term strategic goals. As a result, neither the privatization of banking sector, nor their acquisition by foreign capital was calculated in terms of a long-term strategic perspective contrary to the Spanish case. In terms of foreign direct investment, the overwhelming majority of inflows in Turkey targeted the already existing financial and retailing firms, instead of 'green-field investments' (İzmen and Yılmaz, 2009: 196). Though the cumulative FDI in terms of GDP increased from 10% in 2000 to 32% in 2007 (Halıcıoğlu, 2008: 2-3), the share of industry remained quite low vis-à-vis services sectors. For example, the share of industrial sector was just a quarter of cumulative FDI between 2004 and 2009 and the share of services sector was about 75% of the total FDI inflows. Moreover, about 60% of FDI channeled into services sectors were the financial firms (YASED, 2010: 2).[115] As a result of foreign penetration, the foreign equity ownership in Turkish banking system has reached to 22.4% in 2007, and when the secondary market is taken into consideration this ratio has increased close to 40% (CBRT, 2007: 27). It becomes apparent that, unlike Spain, there was no comprehensive strategy of Turkish state in transforming domestic financial firms into strong 'national champions.' For

[115] Between 2004 and 2009, Turkey attracted about $66 billion FDI. $49.5 billion of this amount was channeled into service sector. In service sector, banks and financial intermediaries captured the lion's share with more than $29 billion. The industrial sector received just $17 billion of the total amount during the same period.

instance, Turkey has just one corporation in *Fortune Global 500* list, Koç Holding ranked 273th. Spain, however, has 10 multinationals in the same list as of the end of 2009.[116] Moreover, the financial sector and the industrial firms' collaboration to design an effective industrial policy was not established (or consolidated) as a state-policy in Turkey (Türel, 2008). As Rodrik (2007b) and Evans (2008) argue, the effective industrial policy of the 21st century requires an active and continuous state-private sector *dialogue* implemented by means of proper co-ordination mechanisms and institutions as revealed in Spanish case. The dialogue in question has two dimensions. On the one hand, state-private sector cooperation is essential. However, Turkey had not developed the proper dialogue channels between the state and the private finance capital to overcome the information shortages and bureaucratic bottlenecks (Rodrik, 2007b). On the other hand, not only the competition, but also private-private sector cooperation (or what Susan Strange coins as 'firm-firm diplomacy') is *sine qua non*. Business associations in Turkey, however, "have been quite reluctant to enter into alliances and have been careful to maintain a distant, arm's length relationship both with other business associations as well as wider segments of the civil society" (Öniş and Türem, 2001: 23). By doing so, the possible expansion of Turkish finance capital towards the neighboring countries was hindered and the ability of Turkish finance capital to act as an economic arm of Turkish foreign policy was curtailed. Obviously, this is a very clear departure point from the Spanish case. As Akın, Aysan and Yıldıran (2009: 97) pinpoint;

> Turkish banks have been operating in Eastern European, Balkan and Central Asian countries through their branches and subsidiaries. It is argued that when domestic banks are sold with short term motives and at high prices, some long-term strategic advantages are lost, making it more difficult for Turkish banks and firms to operate and spread in those countries. Overall, time will better reveal whether the benefits of foreign bank entries in Turkey will prevail over the costs.

Second negative aspect of the post-2001 period was the fragmented identity politics and fragile democracy. The single party government in its first term (2002-2007)

[116] The biggest Spanish financial corporation Banco Santander is ranked 37th with $106.3 billion revenues. Telefónica, for instance, is ranked 68th with $78.8 billion and Repsol YPF 114th with $58.5 billion. Koç Holding is the only Turkish cooperation in *Fortune Global 500* ranked 273th with $28.8 billion. For the full list, see Fortune Global 500 (2010).

succeeded to create relative stability. Yet, the political arena started to be polarized more than the previous era, especially in the years after 2006. In this context, the politics of identity started to dominate the political agenda, rather than the politics of service (Yavuz, 2006: 2-3). The escalation of political tension undermines the economic stability and creates new fault-lines for the sustainability of economic growth. The formulation of a comprehensive strategy and active state coordination in guiding finance capital require common denominators that unify the society. This common denominator and the 'glue' of social cohesion was a desire for strong democracy in Spain. Yet, it is not the case for Turkey even in the first decade of the 21st century (Keyman and Öniş, 2007: Chapter 2). From a political economy perspective, the economic stability and quality of institutionalized democracy are by no means dispensable in pluralist societies.

In terms of second characteristic of 'pro-active' state, the regulatory role, Turkish state achieved significant success due to three main reasons. First, Turkish governmental authorities successfully exploited the 'window of opportunity' opened by the crisis and wiped the 'bad banks' out of the system by taking the support of finance capital relying on 'dynamic accumulation' strategy. Moreover, the society backed the structural reforms in the post-crisis period. It became an unchallenged wisdom for the Turkish public opinion and finance capital that it was no longer possible to continue on the same road without any accident.[117] For example, the arrival of Kemal Derviş as the minister responsible from Economy and Finance was supported by public with "63% approval of rating which is three times more than the next most popular political leader" (quoted in Bakır and Öniş, 2010: 86). For the first time in Turkish economic history, the crisis was not tried to be suppressed by another wave of populist expansion cycle. On the contrary, the financial and fiscal discipline was strictly defended by the authorities against popular backlashes. This was mainly due to the consolidation of institutional infrastructure in Turkey that brings analysis to the second reason.

[117] In fact, it is not an appropriate way to approach Turkish finance capital as a monolithic bloc. The fractions of capital ought to be taken into consideration in evaluating their approach to the reform process. As Gültekin-Karakaş (2009b) shows in her study, the progressive side of finance capital strongly backed the reformation process and internationalization, whereas the traditionalist-wing of finance capital resisted the reforms. Yet, the power of reformation and internationalization lobby wiped the latter one out of the market. This point is studied in Part 5.2.1.

Second, the internal and external supervision mechanisms were established to closely follow the developments within the system. The supervisory authorities were granted an independent role and their positions were secured by well-written legal texts. In this context, the Banking Regulation and Supervision agency appeared as the *independent and sole* authority to govern the financial sector. This was a novel development for the relations between state and finance-capital in Turkey, because the personnel links and clientelistic relations were the main rules of the game prior to 2001 crisis. There also established other regulatory institutions in order to underpin the *rule based economic framework* in Turkey (Bayramoğlu, 2005). Accordingly, Competition Authority, Information and Communication Technologies Authority, Energy Market Regulatory Authority, Tobacco Authority and Public Procurement Authority were established to help the "purification of economy management from the politics and have contributed to the improvement of public expenditure management and to the establishment of a more effective state structure" (BSRA, 2009: 11).[118]

Third, the state-elite combined the domestic change with the backing of EU membership process in order to consolidate the pro-regulation coalition in the country. Although the history of Turkey-EU relations has had a quite long past going back to Ankara Agreement, signed in 1963, Turkey's aim of becoming a full member could not be materialized for more than half century. Having looked at the historical period, making a turbulent progress, Turkish-EU relations started to gain acceleration after the second half of the 1980s, and evolved into a very different path with Customs Union Decision in 1996. Finally, the acceptance of Turkey as candidate country in 1999 and the kick-off of the negotiation process in October 2005 enabled the Turkey-EU relations to move towards most advanced level ever in history. Turkey's candidacy stature in 1999 and the hopes to open up negations in 2005 motivated policy making elites and the public to conduct comprehensive reforms in early 2000s (Çalış, 2006; Müftüler-Baç, 2003; Yazıcı, 2004: 91-102). EU reforms were also used as guiding principles for the Turkish economy bureaucrats. The financial governance mechanism of Turkey, *inter alia*, went through a significant change and restructured

[118] Mainly thanks to binding rules safeguarded by the regulatory state institutions, the macroeconomic targets were hit successfully. Not surprisingly, the average growth and the average inflation, which were 2.8% and 75.9% respectively between 1991 and 2001 increased to 6.8% and curtailed to 13.9% in the 2002-2007 period.

itself in line with the EU standards considerably. In this regard, the Central Bank of the Republic of Turkey was given operational independence by law (Law no. 4651 of April 25, 2001) and its primary aim was determined as to "achieve and maintain price stability." The EU standards and the European Central Bank (ECB) practices were used as benchmarks and these points were strongly advised in the Commission's Turkey progress reports (Bakır, 2007: 70-88). The EU process played a *facilitator role* for the reformists in Turkey and pro-EU coalitions directly involved into the pro-reformist camp in the economic arena. As a result, it is apt to argue that the Turkish state, by putting the economic restructuring in a wider context of EU convergence process, incorporated the different segments of the society into the broad-based interclass coalition.[119] This strategy facilitated to direct total synergy into concrete issue areas at least up the 2006.[120]

In terms of the third aspect of 'pro-active' state characteristic, the wealth distribution capacity, burning hurdles persisted.[121] First of all, Turkey is suffered from the lopsided economic development and the level of inequality in the eastern and western sides. The Turkish economy possesses 'dual characteristics' in the sense that the western part, especially Marmara region, covers most of the economic activities. As a result of the PKK terrorism, the difficult geography and various other reasons, the Eastern Anatolia did not contribute to the output production of the country in accordance with its share. Many people in the region moved from their villages between 1984 and 1999 mainly due to PKK terrorism. For example, the number of migrated people is estimated to be around 6 million (Yükseker, 2009: 266). These people could not be included into the social security system, as a result of which they are informally employed in the manufacturing and service sectors with very low wages or become a part of street vendors (Yükseker, 2009: 266-277). These under-regulated

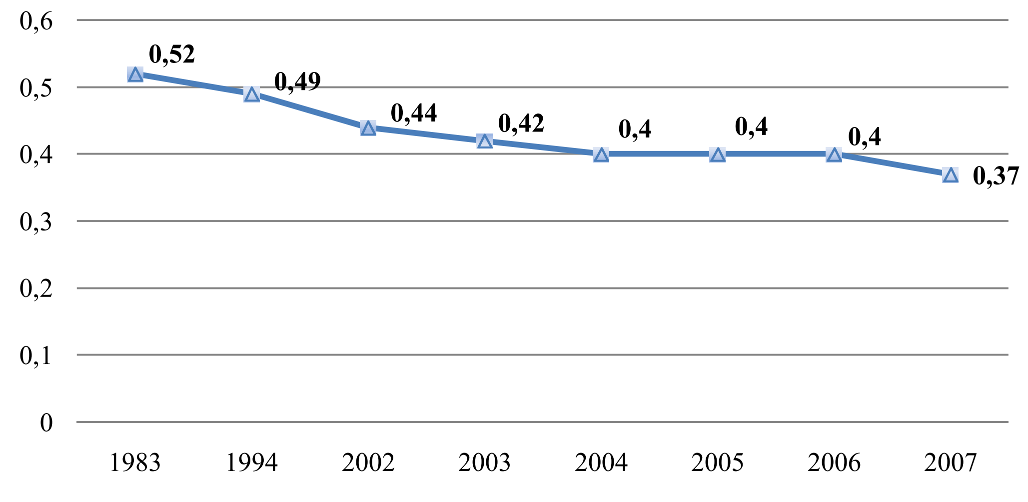
[119] According to different opinion polls conducted in this period, overall support for EU membership was 73% in 2004 and 63.5% in 2005. A total of 73% of AKP supporters and 70% of CHP supporters backed EU membership at the time (quoted in Kösebalaban, 2007: 237).

[120] For the analysis of the economic, political, social and cultural reforms implemented in line with the EU norms in 1999-2004 period, see Yazıcı (2004: 91-102).

[121] It is in fact quite important to underline at this point that a comprehensive social policy approach has never been put into implementation in Turkey. Only partial improvements were tried to be regulated within the last two decades in Turkish political economy history. For details, see Buğra and Keyder (2006), Yükseker (2009), Buğra (2008).

and badly-coordinated migrations exacerbated the uneven production and distribution structure in Turkey. As a result, the Gini coefficient, which shows the income inequality, remains quite high, though it had improved over the last years (see figure 17). Moreover, the social security system in Turkey is still far from being satisfactory. For example, only 40% of the working population in Turkey benefit from the fragmented social security system and the female participation in labor-force, which is around 25%, is "alarmingly low" (Yükseker, 2009: 264).

Figure 17: Gini Coefficient in Turkey



Source: TUIK

To sum up the argument in this chapter, despite all the aforementioned success, this study tentatively concludes that it is too early to label Turkey as an emerging 'pro-active' state in the post-2001 period. The active state regulation in terms of financial system and 'pro-active' foreign policy partially thanks to the changes in domestic political economy structures were the assets of the new state logic in Turkey. Nevertheless, it is quite early to conclude whether these developments have strong footing in terms of 'pro-active' state discussions. In the final analysis, it seems fair to conclude that, Turkey in the post-2001 period successfully transformed itself into a 'regulatory' state as argued by Bakır and Öniş (2010), yet it remains to be seen whether it can improve its position into a ‘pro-active’ state. The conclusion part of the thesis will try to put the Turkish example into the context with Spanish case in order to shed more light on specific country practices in the neoliberal globalization era.

CHAPTER 6

CONCLUSION: A COMPARATIVE ANALYSIS OF SPAIN AND TURKEY

The neoliberal globalization, which took off in early 1980s, shifted the world political economy from state-centered and interventionist Keynesianism to market oriented neoliberalization (Harvey, 2005; Duménil and Lévy, 2005). With the shift of the paradigm from the 'Keynesian Welfare Nation State' to the 'Schumpeterian Competition State', as Jessop (2002) conceptualized the term, the place and function of the states in economic management had become a controversial matter. Subsequently, neoliberal globalization's impact on the state structures and state capacities turned out to be a widely discussed issue. In a broad categorization, mainly two types of arguments came to the fore. One argument, the pro-globalist thesis, claimed that globalization has constrained the sovereignty and capability of nation states significantly (Ohmae, 1995, 2005). According to this approach, the states are regarded as powerless entities in the economy to "make real policy choices; transnational markets and footloose corporations have so narrowly constrained policy options that more and more states are being forced to adopt similar fiscal, economic and social policy regimes" (Weiss, 1997: 3). As a natural consequence of this logic the states are regarded as the 'passive victims' of the global structure and the globalization process is perceived as the realm of necessity for the states that they must adapt themselves.

On the other side of the coin, a second line of argument consolidated its position in the critical political economy literature. The 'pro-active' state thesis, *inter alia*, challenged the conventional wisdom and underscored the vital role and capacity to intervene into the economy during the neoliberal restructuring period (Weiss, 2005).[122]

[122] Weiss (2005: 348) underlines the large-room opened for pro-active state policies in the neoliberal globalization era as follows; "Despite the pervasive ideology of competitive liberalism, the new multilateral discipline has produced a more proactive and strategically oriented approach to industrial governance, manifested not only in state authorities setting priorities and designating preferred sectors or technologies for support, but also in designing results-based incentive schemes that stipulate performance outcomes."

However, it does not necessarily mean that all kind of state interventions yield positive results. It is, in the final analysis up to the 'state capacity' and particular adjustment strategies pursued by the state whether to transform their finance capital into the upper-strata of global political economy. In other words, the political will of state actors to reap the benefits opened by the neoliberal globalization period and the positive responses of the domestic finance capital to these policies significantly determine the ultimate consequences. This kind of states that are capable of transforming their finance capital as part and parcel of a wider political economy framework is named as 'pro-active' states in the literature. The 'pro-active' state, in this context, can be defined as the state that is willing and capable of pursuing successful economic policies mainly in three different areas, which are (1) the state's 'developmental and/or transformative abilities'; (2) state's 'regulatory capacity'; and (3) state's 'redistributive capacity' (Şenses and Öniş, 2007: 277-278). In other words, the 'pro-active' states are the states that have the ability to transform the political economy structure of the country in line with the requirements of long-term goals and have the capacity to implement a comprehensive strategic framework. As underlined, however, not all kind of state intervention yielded positive fruits in terms of economic performance of the countries in question. The literature at this point employs another concept for the 'failure stories', namely the 'reactive' states. Accordingly the reactive states tend to be more fragmented in terms of policy formulation and the coordination of state-business cooperation mechanisms. Hence, their ability to overcome sectional conflicts and to concentrate their attention on longer-term strategic goals, like the creation of 'national champions' is to be more limited. Moreover, 'reactive' states are prone to act according to the dominant norms in policy formulations accepted in the core institutions of international decision making. In summary, 'reactive' state behavior "means going along with the acceptable line of policy thinking as opposed to deviating from such norms in certain critical respects" (Şenses and Öniş, 2007: 255).

In this framework, the present study attempted to analyze the transformation of finance capital in Spain and Turkey in comparative perspective. The particular reference was put on the state strategies and evolution of state-business relations in line with the 'pro-active' vs. 'reactive' state discussions. The major reason to comparatively analyze these two countries lies on the striking political economy similarities between Spain and Turkey up to the mid-1970s. Actually, in the 1970s, both countries were depicting 'semi-peripheral' characteristics in terms of economic structures, national wealth levels, and political regimes. Both countries had had low value-added traditional production, low GDP per capita incomes, and highly authoritarian political regimes. The finance capital in both of the countries was quite traditional in the sense that they were fragmented, uncompetitive and overwhelmingly dependent to state protection. However, over the last three decades, the overall position of Spain and Turkey in the hierarchy of international state system in general and their finance capital in particular diverged strikingly. At present, Spain is one of the core countries in the European Union with a consolidated democratic regime. Moreover, Spanish finance capital showed an outstanding success in internationalization and it became highly competitive in the international fora. For instance, of the 50 leading financial institutions in the world, Spanish financial 'armada', Banco Santander and BBVA, ranked 20 and 34, respectively. Spanish non-financials Telefónica (12), Endesa (35) and Repsol (53) also secure a place among the top one hundred firms all around the world (Erro, Guillén and Bouza, 2009: 61-62). In the *Transnationality Index* Telefónica (with 69%), Repsol (with 55%) and Endesa (with 49%) position themselves at the top of the most transnationalized companies in the world (Chislett, 2008b: 10).

Turkey, on the other hand, did not demonstrate the success of Spain. First of all, in her bid to become a member of the EU for more than half a century, Turkey is still a 'negotiating candidate country.' The democratic regime in Turkey was interrupted two times over the last three decades and the GDP per capita figures remain almost 45% of the EU-27 average (Spain is 105% of the EU-27 average).[123] In the same period, Turkey experienced four major financial crisis, the last of which (February 2001) was the biggest economic crisis of the Republican era. In terms of finance capital, Turkey could not succeed to create competitive international firms, namely 'national champions', to act as the practical hand of Turkish state abroad. The political economy structure, although changed dramatically after the 2001 crisis (Chapter 5), is still far away from the level that Spanish finance capital has achieved.

[123] In Purchasing Power Parity (PPP) terms. Spain is the 5th biggest economy in Europe as of the end of 2009. Data is retrieved from *Eurostat.*

There are many reasons for explaining the diverging paths of Spain and Turkey. Yet, this study aimed to reveal the role of state strategies in transforming finance capital in the neoliberal globalization period. In doing this, the 'pro-active' state discussion is employed as analytical framework within the context of critical political economy perspective. The study concluded that Spanish state over the last three decade transformed itself into a 'pro-active' state to a considerable extent. In the first phase in Spain (1975-1996), the state successfully met the first criterion of 'pro-active' state, namely the transformative capability (Chapter 2); in the second phase Spanish state to a certain scope transformed itself into a full-fledged 'pro-active' state by notably developing the second and third criteria of 'pro-active' state characteristics, namely regulatory capability and distribution capability, in addition to the first criterion (Chapter 3). Turkey, on the other hand, mainly followed the neoliberal dictums of orthodox international financial institutions and tried to integrate into the neoliberal globalization by following the orthodox recipes. The state's role in the economy was also shaped accordingly. From the conceptual framework of this study, the transformation of finance capital in Turkey and the role of state strategies are analyzed under two sub-periods. In the first sub-period (1980-2001), the study concluded that Turkish state showed the many characteristics of a 'reactive' state (Chapter 4). In the second sub-period (2001-2009), Turkey undeniably reorganized its political economy structure by improving the prudential supervision mechanisms in the financial system and by consolidating macroeconomic balances (Chapter 5). However, this thesis tentatively concluded that the Turkish state is far from being 'pro-active' since many structural economic and political problems persisted. Moreover, it was not the case for Turkey to transform its finance capital as part and parcel of a broader political economy framework as in Spanish case. Hence, it was concluded that the Turkish state, albeit successfully satisfy the second criterion of 'pro-active' state, namely the regulatory capability, it falls short of adequately meeting the first and third criteria.

In the final analysis, following the footprints of a broader critical/comparative political economy framework, this study concludes that states have important 'pro-active' roles to play in the neoliberal globalization period. Yet, in the final analysis, it depends on the particular strategies practiced by the state. In this regard, Spain and Turkey are illuminating cases in point. In the rest of this short conclusion part, three broader implications in terms of nature, scope and continuity of the 'pro-active' state discussions are aimed to be drawn for further research.

The first implication of this study is about the *nature* of 'pro-active' state policies. The determining factor and the starting point in active state involvement in the economy are the political will and entrepreneurial ambition of the state elites. The state is expected to formulate a broader political economy framework for comprehensively overhauling the existing structures. The aim in mind ought to be the upward mobilization of the country in question. In this context, the restructuring of the existing traditional production mechanisms and the transformation of the political system that underpins the aforementioned traditional economic links is of vital importance. This means that state must back a particular type of finance capital that aims for further integration with the global political economy circles. The progressive fractions within the finance capital, on the other side of the coin, must positively respond to the state policies to restructure the economy. This situation is observed in the Spanish case clearly. Starting from Suarez administration in 1978, the Spanish political parties, PSOE and the PP, supported the transformation of Spanish financial and economic structures so as to compete at the global scale. This aim had turned into creating Spanish multinationals, the famous 'national champions', to foster Spanish presence at international platforms. Today, Spain has the leading multinationals acting as the 'practical hand' of Spanish international stature and foreign policy. However, unlike the Spanish case, state interventions in Turkey and the business elites' reaction to these interventions did not underpin the upward restructuration of Turkish political economy. On the contrary, the 'reactive' state policies turned out to be the main 'ambiguity creator' in the economy as a result of which business groups opted for *clientelistic* understanding instead of rule based economic relations. As a result, the first implication of 'pro-active' state discussions is that the *nature* of state intervention should be progressive and inclusive, which in fact brings the analysis to the *scope* of the pro-active state discussions.

The second implication of this study is about the *scope* of 'pro-active' state policies. The political economy of the transformation of finance capital ought to be a part and parcel of wider aims and ideals. This aim is to be a 'common denominator' for incorporating the overwhelming majority of society in order to create 'total synergy' unified among a common goal. If the politics and society is highly fragmented and prone to antagonisms, it is quite difficult, if not impossible, to transform the political economy structures in the country in question. This common denominator in Spain appears to be the democratic regime and EC/EU membership process. The Spanish transition to democracy was quite rapid and bloodless mainly thanks to the general public will and business elites' support. In fact, the important interest groups in Spain appreciated the importance of pluralist substantive democracy and acted in line with the necessities of democratic 'pact-building' culture. Moreover, the interest groups in Spain quickly linked the democratization and economic modernization to EC membership process to the extent that these terms started to be used interchangeably. The Spanish state, on the other side of the coin, effectively combined two aims. On the one hand, it developed a very 'pro-European' rhetoric by wholeheartedly accepting the necessities of European economic integration; on the other hand, Spain's integration was by no means materialized in an orthodox way since the state pursued very active strategy by protecting the domestic finance capital by implementing a successful 'concentration' strategy for financial and industrial firms. As a result, when Spain fully opened its financial and industrial economy to foreign competition, the Spanish finance capital was restructured to a significant extent; thereby, Spain consolidated its position within the EU. This kind of long-term strategy formulation and consensus building culture did not become possible in Turkey. First of all, democracy could not be consolidated as the "only game in town" in Turkey. Though Turkey passed into a multi-democracy regime after the Second World War, in the afterwards, the democratic functioning of the country was interrupted four times. This, in turn, exacerbated the fragile nature of political environment and made the fragmented politics as a norm for Turkish political life. In such a kind of fragile political environment, the establishment of transparency and accountability standards could not be realized. Once Turkey followed the orthodox recipes of neoliberal globalization and prematurely liberalized its financial accounts to outside world without establishing proper institutions, the macroeconomic structure of the country also deteriorated dismally. As a result of the weak democratic credentials and non-existence of rule based economy, the finance capital in Turkey turned into the part of a *crony capitalistic* coalition, which in turn hampered the upwardly restructuring of Turkish political economy. Furthermore, in the Turkish case, the external forces like the EU did not function as effectively as it was in the Spanish example. Due to the hesitation of Turkish finance capital to become a member of the EU for decades and due to the confusing short-term oriented policies of the European/Turkish political elites, the EU membership goal had become a "never-ending story" in Turkey (Müftüler-Baç, 1998). As a result, the reform processes and the EU membership bid had become the major dividing lines within the Turkish political and economic landscape. Not surprisingly, this hampered the creation of a 'common denominator' and 'total synergy' in the state-society coordination. As a result, it is fair to derive the second implication of 'pro-active' state discussions in the way that the *scope* of state intervention ought to aim creating common ideals and/or material benefit areas of which is supported by the majority of the main interest groups in society. Furthermore in democratic societies, these aims ought to be backed by strong democratic credentials in order not to encourage the interest groups to opt for alternative *clientelistic rentier mode of capital accumulation* and short-term problem-solving mechanisms.

The third implication of this study is about the *continuity* of 'pro-active' state policies. The 'pro-active' state, in order to sustain its capabilities, must be preemptive on the economic and political fronts. This is strikingly visible in the recent Spanish financial crisis that the Spanish state depicted a highly 'reactive' characteristic before and during the financial debacle. As a result of the impacts of global financial crisis on Spanish economy the GDP is contracted by 3.6% in 2009 and is forecast to further contract by 0.5% in 2010 (EIU, 2010: 3). Due to the government stimulus packages the budget deficit skyrocketed to 11.2% of GDP in 2009 (well above the Maastricht criterion of 3%). Despite the stimulus packages the government was not successful in fighting against unemployment in the sense that 4.6 million people was recorded as "unemployed" in 2009, which actually corresponds to almost 20% of active population (EIU, 2010: 3). The gross fixed investment also fell by 15.3% in 2009 and is expected to fall in the incoming two years (EIU, 2010: 9). Undoubtedly, the Spanish state was quite 'reactive' to face the challenges of the economic crisis. The Zapatero government for a long time denied the impact of the crisis on Spanish economy. Yet, the somber effects of financial crisis on Spanish economy following the Greek debt crisis forced the Spanish authorities to take measures in November 2009. The Stability Programme (2009-2013) designed to improve public finances, consolidate financial sector, design a strategy for a sustainable economy, implement a labor market reform, and redesign social security system along with the problems in real estate market (ECEFA, 2010). As the length of the list demonstrates during the expansion phase of world economy between 2002 and 2007 (Chapter 3, footnote 47), Spanish economy accumulated important structural imbalances to be overcome in the crisis era. It is fair to argue that the Spanish state elites had complacency problems during the 'good times' of economic growth and did not invested in the diversification of economy, improvement in labor market, current account consolidation etc. (Chapter 3, Part 3.1.2). In fact, two major developments that underpinned the 'reactive' policies dominated the Spanish growth in the first decade of 21st century. First, construction sector boomed in the literal sense of the world. Approximately 400,000 new houses were built just around Madrid and even that the housing stock doubled the house prices rose by 150% between 2000 and 2008. In 2006, Spain built a record 760,000 houses, which is in fact more than the combined total of Germany, Italy and France (EIU, 2008: 22). Second, the domestic demand and consumption skyrocketed considerably. The family indebtedness, ominously, increased more than 115% of disposable income and above the 70% of Spanish families devoted more than 40% of their income to the payment of mortgage credits on their housing during the same period (Guitart, 2008: 4). During this period, Spanish growth was based on external borrowing as a result of which the gross foreign debt of Spain increased to 156% in 2008 (Gros, 2010: 5). As the housing market busted globally, the investments in the housing sector in Spain also evaporated. Therefore, it seems possible to argue that the Spanish state not only depicted a 'reactive' characteristic in tackling the crisis, but also paved the way to the emergence of the Spanish crisis by implementing 'reactive' policies by not controlling the housing market, diversifying the economy, overhauling the dysfunctional labor market reform and improving the current account deficits (IMF, 2010).[124] Chislett (2010b) felicitously underlines this point;

[124] Even Spain was regarded by the investors as one of the countries on the edge of financial collapse in the Eurozone after Greece and Portugal (Gros, 2010; De Grauwe, 2010). Due to the seriousness of the economic crises in these countries even the Euro area came very close to total destruction. The EU

> "For more than a decade, the political class was happy to encourage phenomenal growth of the property sector without giving thought to the bubble being created or what would happen after it burst. The housing bubble started during the government of the conservative Popular Party (1996-2004) and intensified under the Socialists. The latter broke their promise to end tax deductions for home purchases – although they have changed their minds again in recent months. The number of housing starts in 2006 (865,561) was more than France, Germany, the UK and Italy combined. The explosive growth of the property sector had a big knock-on impact on the rest of the economy and caused corruption among politicians to flourish, particularly as a result of reclassification of land by town halls. More than half the increase in total tax revenue between 1995 and 2007 came from the property sector."

Turkey, on the other hand, succeeded to weather the global financial crisis mainly thanks to its robust financial system and healthy fiscal balances (Bakır, 2009). It is obvious that the 'pro-active' policies followed by the state after the disastrous 2001 significantly helped the country to resist the global turmoil. Therefore it is possible to derive the third implication of 'pro-active' state discussions that the *continuity* of state intervention ought to preemptively follow up the developments in the global political economy so as to redesign the existing policies and avoid complacency problems. In other words, being 'pro-active' is not something given for all times and for all policies, it is only sustainable with constant policy formulation and reformulation in line with the changes in global political economy.

To sum up the argument in this chapter, this study is an initial attempt to reveal the roles of particular state strategies in transforming national finance capital in part and parcel of a broader political economy framework. Although the present study is useful to draw some general conclusions for the nature of 'pro-active' state discussions, further research ought to be done in two basic questions. First, what are the crucial determinants in sustaining the 'pro-active' characteristics of the states vis-à-vis the changing global political economy conditions? This research question is quite crucial if one takes the recent financial crisis in Spanish economy into consideration. Another question that devotes in depth analysis is the mechanisms that are crucial in transforming the 'reactive' states into 'pro-active' ones over time, if it is possible.

in collaboration with the IMF pledged €750 billion support package for the Eurozone countries, mainly Greece, Spain, Portugal and Italy (EIU, 2010: 6).

Throughout the study (Chapters 4-5), some conclusions are drawn by examining the transformation of Turkish financial system and the role played by the 'pro-active' state policies. Yet, in the final analysis, it is obvious that further questions ought to be asked and an in-depth analysis is needed to shed more light on the issue.

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