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ABSTRACT

From Washington Consensus to Global Crises

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This thesis focuses on the changing modes of state intervention into the economy in neoliberalism. It contends that the so called free market is neither a natural process nor an inevitable result of the harmony of interest, but the result of a deliberate political making process. The global economic crisis provided ample evidence to refute the claim that state and market are separately existing and antagonistic entities and indicates that the issue is not the market or the state, since the state in a capitalist society is equally subordinate to capital, simply providing an alternative mode of regulation of capital accumulation. The state has always been essential for "proper" workings of the market, especially for the interests of capital and the neoliberal state is not an exception

Keywords: Neoliberal state, Washington Consensus, Keynesianism, Monetarism

ÖZ

Washington Uzlaşısından Küresel Krize

Yüksek Lisans Tezi, Siyaset Bilimi ve Kamu Yönetimi Ana Bilim Dalı

Tez Yöneticisi: Yard. Doç. Dr. Galip Yalman

Eylül 2010, 92 sayfa

Bu tez neoliberalizmde devletin ekonomiye müdahalelerindeki değişen rolüne odaklanmaktadır. Tez , sözde serbest piyasanın ne doğal gelişen bir sürecin ne de çıkarların uyumunun kaçınılmaz bir sonucu olduğunu , ancak bilinçli bir siyasi sürecin sonucu olduğunu iddia etmektedir. Küresel Ekonomik Kriz piyasa ve devletin birbirinden ayrı var olan ve birbirleriye çatışan yapılar oldukları tezlerini çürütecek yeterli kanıtı sağladı ve gösterdi ki, mesele devlet ve piyasa arasındaki ayrım değildir, çünkü kapitalist toplumlarda devlet alternatif olabilse dahi sermaye birikim düzenlemelerine tabidir. Devlet her zaman, özellikle sermayenin çıkarları açısından sermaye birikiminin işleyebilmesi için gereklidir ve neoliberal devlet de bir istisna değildir.

Anahtar sözcükler: Neoliberal Devlet, Washington Uzlaşısı, Keynesçilik, Parasalcılık

To my family and friends…

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when the tide goes out".
Warren Buffet

Yirminci asır

dört kanatlı bir tayyareden

mendil salladı bize.

Yakasında kapitalizm

açıldı kabak çiçeği gibi.

O kadar çoğaldı

o kadar

uzadı ki bacalar

saçlarından asıldılar sıra sıra

kehkeşanlara.

Öyle duman çıktı, kurum yağdı ki

gökte Allah bile meleklere

Amerikan markalı muşambalar giydirdi.

Şikagolu bir milyoner

öptü telsiz telefonla

Tokyolu sevgilisini.

Nazım Hikmet, ***Benerci Kendini Neden Öldürdü ?***

CHAPTER 1

INTRODUCTION

The Capitalist World Economy is experiencing one of its worst crises that have been extensively compared to 1929 Great Depression by many scholars and journalists. Martin Wolff openly declared the end of a modern ideological god, "the free market economy" by stating that:"Another ideological god has failed. The assumptions that ruled policy and politics over three decades suddenly look as outdated as revolutionary socialism."

The discussions about the future of global economic crises still continue and positions of economists is somehow similar to the theologian who claims that he saw the black cat in the dark room in the anecdote, which is following:

The philosopher: I go into a dark room at night, to look for a black cat that isn't there.

The theologian: I do the same thing, but I come out claiming I found the cat.

The social scientist: I suspect from the beginning that there is a black cat in there somewhere, and I emerge from the room with scratches on the forearm as vindication.

The Cat: Do I even exist? Oh, MEOW, I think! Therefore I am. Question is, how do YOU know I exist? Are you the philosopher, the theologian, the scientist, or like me, a cat?

(Nick Philips – The Case of The Naked Quark)

Economists sequentially, like Archimedes leaving the bath naked yelling as "euraka" , are declaring that they saw the light at the end of tunnel. Many letters in the alphabet are still being used to define economic recovery whether some economists expect "V" shape or "U" shape. Nouriel Roubini credited as the prophet of the financial crisis has warned the risk of a "double-dip" recession "W shape" if governments don't time the end of stimulus packages correctly. At the same time, people that are subjected to the negative results of economic devastation have been seriously confused and have reacted to the economic measures including bailout plans and stimulus packages taken by US government and blame it for taking socialist measures. Demonstrations against Bush & Obama and their plans on economic recovery obviously indicate the confusion about the role of state in a capitalist economy in the public image. Crises of this magnitude, i.e. Great Depressions, are rare but regular events in the history of capitalism. They are reflections of systemic tendencies which periodically express themselves as Great Depressions. It is interesting to note that economic and business historians speak of the Great Depressions of the 1840s, 1870s, and 1930s. The period of the 1970s, the so-called Great Stagflation, was another such event, and we are still now experiencing another episode of this recurrent phenomenon. The present crisis is the first Great Depression of the twenty-first century. Crises of this sort are generally resolved by a new set of (global) institutions, a new balance of power between the contending forces within and across nations, and most of all, by a recovery in profitability for the surviving businesses as they acquire the assets of their failed competitors at bargain prices. The balance between real wages and productivity also typically shifts in favour of businesses in the face of the unemployment induced by a crisis.

Put simply, capitalism is an extremely unstable economic system producing endlessly recurring booms and busts. Thus, for example, in the late 1990s a stock market boom spun to unsustainable levels that produced a market crash early in 2000. That crash destroyed trillions in stock values generating recession and millions of lost jobs, etc. Then, in the years 2004-2008, a credit and real-estate boom spun debt levels and housing prices to unsustainable levels. We are now living through the resulting crash which is, again, eliminating many debts and investments, collapsing the housing industry in many countries, generating nearly global recession, immense unemployment, etc. Crises are capitalism's regular way of functioning to offset its other extreme functioning, namely speculation and investment bubbles. Government policies are means to facilitate and "soften" the ways in which crises does the work of reconfiguring capitalism for the next boom.

What should be the role of government in a capitalist economy? It is a really longstanding debate that has roots in Adam Smith's" Wealth Of Nations" that favors the case for free markets that combined minimalist but essential role of the state in hope for providing essential public goods such as national defence, law,order and defining and enforcing property rights and contract information. Although there are various economic traditions and schools, the dominant debate is between monetarism and Keynesianism that can be considered as the two side of the same coin because of their conceptualization within the neoclassical economy. The current border of the state have been mainly determined by historical events combined with developments in the mode of capital accumulation. At the times of global economic crisis, theories have tendencies to adapt themselves to the newly existing conditions as it was experienced during Great Depression that paved way to a transition from laissez faire economy to a more controlled economy called Keynesianism. The Stagflation crisis in 1970’s eroded the main assumptions of Keynesian economy and has given a rise to the domination and the hegemony of neoliberal economy.

From 1965 to 1973 was a period that the inability of Keynesianism and of Fordism to hold the inherent contradictions of capitalism became more visible. Starting in the early 1970's with the world economic recession, the post war economic boom began to collapse, marking the onset of a radical restructuring of the world capitalist system.(Harvey,1989)In order to overcome the chronic tendency of profit rate to fall in Keynesianism, The state in the Fordist regime of accumulation had acted as an investor, a producer and ultimately as a consumer and had made big investment to absorb surplus through an appropriate mix of fiscal and monetary policy. Regulations put in place in one era to protect us all from the capitalist excesses become obstacles to profits when the crisis is past. Then comes a chorus decrying regulations, from capital, from academics, and from some quarters of the government. And to a greater or lesser degree, the regulations are undermined. The crisis is the worst where these regulations did not exist or where undone due to pressures from capital itself.

Since capital accumulation in a capitalist mode of production always need the complementary role of state and at the same time, the state in a capitalist society is subordinate to capital, simply providing an alternative but subordinate mode of regulation of capital accumulation, the role of neoliberal state ought to be examined on the basis of this historical fact. Since capitalism has always been sustained by the state intervention in its functioning, the question is that how the neoliberal state intervene in the functioning of the market since the Volcker Shock. The structural crisis beginning in 1970's created conditions for the reaffirmation of the hegemony of liberalism and finance.

In neoliberalism the way state intervenes in the organization and the circuit of capital has been reformulated. The distinctive character of the neoliberal state is that the point is not just to degrade, deconstruct, or drawing back the state at the expense of the market as liberals put forward in theory, but the new role that is adhered to the state with regards to the valorization of capital and the class struggle. Restrictive budgetary and debt management policies that inevitably curb the social obligations of the state have damaged social equality and has given impetus to social polarization within the society. The major change in monetary policy that gave impetus targeting the substitution of full employment with price stability and automatically obsession with price stability has brought with itself deregulations, opposition to worker unions and organizations, favoring large mergers and finance capital become hegemonic in the new neoliberal era. (Dominique& Levy, 2005)

Neoliberalism basically is a theory of political economic practice committing that the human well-being can be best achieved through *"the maximization of entrepreneurial freedoms within an institutional framework characterized by private property rights,* *individual liberty, free markets and free trade."* (Harvey,2006: 145) Neoliberalism has changed the world not just in the sphere of economy favoring the free market and the rolling back of the state from the economy, but also in the realm of politics. Neoliberalism is a totalitarian project that "straddles a wide range of social, political and economic phenomena at different levels of complexity" (Saad-Filho,2005: 2)

Neoliberalism both as a discourse and as a policy prescription has come into existence through Washington Consensus, the term coined by John Williamson (1990), that consists of ten principles which shape a typical package of IMF stabilization policies and World Bank structural adjustment programs. Washington Consensus includes fiscal and monetary austerity, devaluation, trade liberalization, financial liberalization and banking system restructuring, price liberalization, privatization, labor market deregulation, tax reform and subsidy cuts (Williamson 1990) Washington Consensus is labeled as neoliberal because of its emphasis on liberalization and its adherence to the nineteenth century liberalism that proposes a minimal role for the state. (Stiglitz, 2008)

Williamson described Washington Consensus as *" a response to a leading role for the state in initiating industrialization and import substitution. The Washington Consensus said that this era was over."* (Williamson,1990) What has been proposed by Washington Consensus is shortly based on three basic assumptions including a market economy, openness to the world and macroeconomic discipline. Williamson's so-called ten commandments are organized on two basic groups that are interrelated. On the one hand, the promotion of economic development through fiscal adjustment and a market orthodoxy; on the other hand a sharp reduction of the role of the state in the economy (Stiglitz et al. 2008).

Neoliberalism is not a mode of production, but is an “accumulation strategy” with a hegemonic project. It is an accumulation strategy in the sense that Bob Jessop defines it as “a specific economic ‘growth model’ complete with its various extra-economic preconditions and outlines the general strategy appropriate to its realization.”(1983:15) As Harvey puts it, neoliberalism on the one hand, is a project for the reorganization of international capitalism and on the other hand a hegemonic project aiming to restructure the conditions for capital accumulation and the restoration of class power. (Harvey, 2006)

Since 1980’s all the debates about the role of state in a capitalist economy always have a tendency to consider market and state as separately existing and antagonistic entities with their own logics and principles and have a deficiency because of their considerations of state and market as alternative paradigms (Yalman, 2006). However, the global economic crisis refutes the claim that state and market are separately existing and antagonistic entities. It indicates that the issue is not the market or the state, since the state in a capitalist society is always subordinate to the requirements of capital accumulation, while at the same time it could appear as an alternative mode of regulation. As for the superiority of the market over the state, the state has always been essential for "proper" working of a market economy, especially for the interests of capital.

In order to understand the relationship between the market and the state in neoliberalism, there needs to be a clear cut separation between neoliberalism as a system of thought and actually existing neoliberalism. In theory, neoliberalism as a system of thought having its roots in Monetarism proposes the actual driving back of the state, but in practice state intervention under the guidance of Washington Consensus is somehow different and the role of state is interventionist in the sense that Pierre Bourdieu's distinction between the right and left hands of the state (Bourdieu,1990). From securing the general external conditions for capital accumulation to managing the fundamental contradiction between the social nature of productive forces and the private nature of ownership, the state and its role in the economy has not been deactivated in neoliberalism, instead it has been reformulated for the continuation of the accumulation of capital and such a reformulation could not be considered as independent from the Monetarist's perception of the crisis of Keynesianism that is equal to "the crisis of the State". Therefore, the main target of Monetarism is the state and the necessary transformation of state in such a way that the crisis of the accumulation process that had started since 1960s ought to be overcome at any social cost including rising levels of unemployment.

In the second chapter, since neoliberalism amalgamates insights from a range of sources including monetarism and Keynesianism, the thesis is to focus on theoretical assumptions of these two basic economic theories and aims at defining the core assumptions of neoliberalism. Also in the first chapter, another point that is discussed in depth is the political making of the market that falsifies a priori statement that laissez-faire is an inevitable result of a spontaneous process.

In the third Chapter, the main focus is on the changing role of the state both in national economies and in the global capitalist economy with the rise of Bretton Woods system. The Bretton Woods monetary regime and the Chilean case as the first neoliberal experiment under the military junta of Pinochet and the military making of market in Chile is discussed.

In the last chapter, the demise of Bretton Woods Regime following the crisis of 1970's is focused and the discussions of the roots of the genesis of neoliberal state is analyzed. Lastly, the functioning of neoliberal state under the guidance of Washington Consensus with respect to financialization and globalization is followed.

CHAPTER 2

2. KEYNESIANISM, MONETARISM AND THE STATE

Neoliberalism is a totalitarian project that "straddles a wide range of social, political and economic phenomena at different levels of complexity" (Saad-Filho,2005: 2) Having its roots in monetarism, neoliberalism is a response to the Post-War economic order based on Keynesian compromise between state, labor and capital. The new formulation of the role of the state in intervening in the economy following the end of Bretton Woods system and the fiscal crisis coupled with both unemployment and inflation has included a sharp reduction in the role of the state in theory, but in reality the point has not been the drawing back of the state as it was argued in theory, the point is the changing mode of state intervention in the economy favoring the organization of a particular class, capitalists at the expense of labor class.

This chapter focuses on, on the one hand the theoretical basis of Keynesanism and Monetarism in terms of the role of the state in the economy and on the other hand, the evaluation of the "myth of free market" which is an direct result of a political making process.

2.1. Political making of the Market : "Free Market" as a myth

Neoliberalism becomes truly hegemonic in the sense that its particular prescription about political economy is universalized as "natural". At the heart of classical economy and also today in global neoliberalism , the concept of self-regulating and self-correcting market governed by objective rules and universal laws exists and such a market that is freed from all restrictions imposed by non-economic, political factors and under the existence of suitable conditions such as complete information and oligopolistic competition can lead to optimal allocation of resources.

Neoclassical economists support the idea that a market arises spontaneously to satisfy needs by making reference to Adam Smith's claim that human beings are by nature economic animals that have an inherent propensity to "truck, barter and exchange". In order to facilitate exchange and improve their well-being, people create markets, money and economic institutions. Once market was created, then it is believed to function due to its own logic and without central direction.(Gilpin, 2001)

For neo-classical economics the profit motive was deduced from the competitive character of human nature or the structure of competition. But Polanyi, who is a critical writer, rejects the spontaneity of the existence of market. His explanation to the existence of market is that the commodification of land, labor and capital leads to the scarcity of these means of productions and inevitably forced people to act in accordance with the rules of so called "free market". For Polanyi, the genesis of a separate economic system that dictates its rationality to the members of society was based on a *political act* that deregulates state protection on men and women and forced them to sell their labor power and privatize the use of land and the use of money. (Polanyi, 1957)

Polanyi rejects the classical idea that the rise of capitalist modernity is the result of gradual expansion of exchange and the resulting evolution of social institution conducive to exchange. As Polanyi puts it, *"the emergence of national markets was in no way the result of the gradual and spontenaous emancipation of the economic sphere from governmental control"* (Polanyi, 1957: 258) According to Polanyi, on the contrary " *the market has been the outcome of a conscious and often violent intervention on the part of government which imposed the market organization on society for non-economic ends.* (Polanyi, 1957:58)

Polanyi states the artificial nature of market as these words:

"*The step which makes isolated markets into a market economy, regulated markets into a self-regulating market, is indeed crucial. The nineteenth century… naively imagined that such a development was the natural outcome of the spreading markets. It was not realized that the gearing of markets into a self-regulating system was not the result of* *any inherent tendency of markets…but rather the effect of highly artificial stimulants administered to the body social in order to meet a situation which was created by the no less artificial phenomenon of the machine"* (Gray,1999:12)

As John Gray puts it, free market is a social engineering process that took place in midnineteenth century England. The objective was to free economic life from all social and political control and to demolish all previous social markets and substitute them with deregulated markets independent from all social needs. Gray emphasizes the coercive role of state in the creation of laissez faire economics by stating that " *In reality a laissez –faire economy- an economy in which markets are deregulated and put beyond the possibility of political or social control- cannot be reinvented. Even in its heyday it was a misnomer. It was created by state coercion and dependent at every point in its workings on the power of government."* (1999:5)

2.1.1. The Harmony of Interest

Since Adam Smith and the laissez faire school of political economy, the doctrine of the harmony of interest is considered as the basis that keep people's own economic interests on the services of the interests of the whole community. For Adam Smith, in pursuing his own interest, the individual persists inevitably that of the community, and in other terms, by following the interests of the community, he also follow his own interest too. This is what defined as the core and famous assumption of the doctrine of "the harmony of interest"(Gilpin,2001)

When Adam Smith defines this harmony in the society, he divides community into three groups of people. First one is those who lives by wages, secondly, those live by rents and lastly those lives with profit. (Smith,1991:15-16) But as E.H Carr indicates to us, as a result of the invention of the steam engine, *"Once industrial capitalism and the class system had become the recognized structure of society, the doctrine of the harmony of interests acquired a new significance, and became , as we shall presently see , the ideology of a dominant group concerned to maintain its predominance by asserting the identity of its interests with these of the community as a whole."* (1964: 44)

Harmony of interests is another myth that can be openly fasified by history. Marx indicates in his *Communist Manifesto*, that

"The history of all hitherto existing society is the history of class struggles. Freeman and slave, patrician and plebeian, lord and serf, guild-master and journeyman, in a word, oppressor and oppressed, stood in constant opposition to one another, carried on an uninterrupted, now hidden, now open fight, a fight that each time ended, either in a revolutionary reconstitution of society at large, or in the common ruin of the contending classes" (1998:1)

From Hayek to Friedman, "free market" -that is freed from all political regulations, external interventions of state except for the protection of the regular workings of the market-has been considered and propagated as independent from all social struggles and as a natural process that draw people the road from serfdom to freedom. Free market is emphasized as the spontaneous ultimate means to follow human prosperity and richness.

However, as Polanyi argues that the free market is a political process that was based on the forceful commodification of land, labor and capital and forceful attempt to commodify the labor power and is not a voluntary and natural choice of people. E.P Thompson, in his *Customs in Common,* clearly shows how the coercive powers on the market lead to proletarianization of labor that led to creation of a working class that is wholly dependent and vulnerable to market disciplines with no alternative. (Thompson, 1991)

Why could the forceful political making of market be understood/launched today as a natural and voluntary process? Zizek can give the reason for such an understanding with his metaphor, "a time travel without a time machine" which is following,

"How is the cirle of changing the past possible without recourse to time travel? The solution was already proposed by Henri Bergson : of course one cannot change the past reality/actuality, but what one can change is the virtual dimension of the past.-when something radically new emerges it retroactively creates its own possibility, its own causes or conditions .A potentiality can be inserted(or withdrawn from) past reality. Falling in love changes the past : It is as if I always, already loved you, our love was destined to be, is the "answer of the real" My present love causes the past which gave birth to it.The same goes for legal power here too, synchrony precedes diachrony. In the same way that once i contingently fall in love ,this love becomes my necessary fate, once a legal order is installed, its contingent origins are erased. Once it is here, it was always already here, every story about its origin is now a myth. (Zizek, 2010:28)

Free market is believed to or rather is tried to make people believe as if it always exist by the groups and the ideologues whose common interest based on it. In order to understand in depth the relationship between market and the state in general, and in particular the role of the neoliberal state in the economy, it should be kept in mind that free market is neither a natural process nor an inevitable a result of the harmony of interest.

2. 2. Monetarism: State versus Market

Liberal economic system is based on institutional separation of state and market. Polanyi defines this situation as "the primacy of the economic motive in Western liberal societies is based on the view of the institutional separation of society into an economic and political sphere" (1957:71)In addition, contrary to mercantilist era that politics had full domination over economics ,in liberalism, economics has priority and domination over politics. State just set the rules of market and enforce these rules Apart from this role of state, every intervention inevitably lead to disturbance of market relations. Given this separation of politics and economics, the liberal political economy is self-sustaining.

2.2.1. The relationship between politics and economics

Liberal perspectives give primacy of place in society to the individual consumer, firm and entrepreneur and degrade all collective structures organized around a common interest. Adam Smith, by defining his well-known metaphor, “the invisible hand” states that:

“Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of society, which he has in view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society.” (1991:397)

Every people by following its own good automatically, follow the common goods of the society. Therefore, there is a natural harmony of interests among the individuals of a society. Because the hidden hand of the market regulates all the goods for the sake of all ,there is no essential role that should be adhered to state except for minimal intervention.

In theory, according to Milton Friedman, the man who was hailed as the most influential economist of the past half century, the main and the minimal function of the state *“ is to protect our freedom from both the enemies outside our gates and from our fellow-citizens: to preserve law and order, to enforce private contracts, to foster competitive markets”* (Klein, 2007:5) For Friedman every intervention of the state should be degraded. He defines his conceptualization of the distinction between politics and economics in such words that “*the kind of economic organization that provides economic freedom directly, namely competitive capitalism, also promotes political freedom and because it separates economic freedom from political freedom.”* (1962:8)

In another paper, Milton Friedman and Rose Friedman, in hope for justifying the unfettered market, argue that.

"Whereever we find any large element of individual freedom, some measure of progress in the material comforts at the disposal of ordinary citizens, and widespread hope of further progress in the future, there we also find that economic activity is organized mainly through free market. Wherever the state undertakes the control in detail the economic activities of its citizens…There ordinary citizens are in political fetters, have a low standard of living, and have little power to control their own destiny" (1990:18)

In his definition of Chicago School Friedman states what is prominent is that theory is really vital, but unless the theory is verified by the facts, it has no importance. The last but not the least, if the contrary is not justified, the market could optimally reach the most efficient outcome. This absolute adherence to market in the functioning of economy and the skeptical approach to the role of the state in the economy basically describe the position of monetarism. (Samuels, 1993:8) Even if Friedman writes that they are skeptical, it is obvious that Chicago boys and their politician followers consider state as a big source of inefficiency in the economy rather than being a complementary actor. Samuels argue that monetarists are aware that the role of the state in the economy is an important factor especially in terms of the rate and structure of economic development. He states,

"They are aware of ostensible limits to market and market solutions, of non-market bases of the market, and of the role of legal and moral rules. Nevertheless, they believe in the power of market organization and its virtues in comparison with non-market

(namely, governmental) organization of economic activity…They are antagonistic to the use of government as reformer and panacea for "ostensible" problems."(1993: 448)

Many critics of the government base their beliefs on a priori premises about the market: first, that markets, by themselves, yield efficient outcomes; and second, that efficiency is more important than, say, distribution between persons or generations. Based on these judgments, critics of government have argued,

(i) Government is unnecessary because anything the government can do, the private sector can do better;(ii) Government is ineffective because anything the government does, the private sector can and will undo(iii) The incentive structures inherent in public institutions imply that government actions generally decrease societal welfare, or, at the very least, inhibit productive economic activity by taking resources away from one group and giving them to another, often less deserving group. (Stiglitz, 2008:3)

2.2.2. The Quantity Theory of Money

The quantity theory of money says that inflation is primarily related to behavior of money supply. Inflation follows from excessive creation of money supply and if money creation is not excessive, than inflation cannot occur. It is important in the sense that to break up the monopoly of the state in printing money to finance its budget ought to be prevented for the sake of separating economy from political goals and interventions.

Milton Friedman compares inflation to alcoholism in his PBS series, Free to Choose:

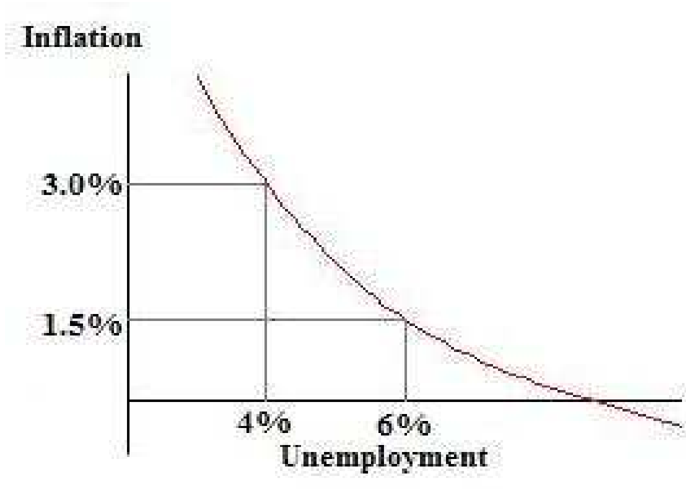
“Inflation is just like alcoholism, in both cases, when you start drinking or when you start printing too much money. The good effects come first; the bad effects only come later. That's why, in both cases, there is a strong temptation to overdo it, to drink too much and to print too much money. When it comes to the cure, it's the other way around, when you stop drinking or when you stop printing money the bad effects come first and the good effects only come later. That's why it's so hard to persist with the cure.”

The hypothesis of the quantity theory follows as,

- A growth rate in the money supply leads to a rise in inflation
- The supply of money is exogenious
- In the long-run, injecting money to the economy has no effect
- The real interest rate is not determined by monetary factors, but by the productivity of capital.

Monetary policy is in the heart of Keynesian-Monetarism debate. Monetarists claim that Keynesians, as a result of their obsession to the fiscal policy misunderstood the role of money in the economy. Monetarists argue that economy has a capacity for self-correction. When there is unemployment, the system automatically self-adjust to restore the system on the natural rate of unemployment.

2.2.2. Philips Curve: Either unemployment or inflation?



Graphic 1: Philips Curve

Philips Curve indicates a trade-off between inflation and unemployment and implies mistakenly that there is a historical inverse relationship between the rate of unemployment and the rate of inflation in an economy. The lower the level of unemployment in an economy the higher is the inflation is. (Biven,1989)

Monetarists claim that since the labor market, like all other markets is self-correcting and self-sustaining, there could not be an involuntary unemployment. Market as a rational sphere, does not waste any means of production. Monetarists considering the labor power as one of the commodities, claim that there is a natural rate of unemployment (NAIRU) in the economy and any intervention such as state intervention and investment aiming at full employment have ultimately resulted with inflation that disturb the economic welfare and prosperity.(Biven,1989)

It should be noted here that the economy ought not to be related with graphs or mathematics, it ought to be related with people. Therefore, such a trade off between inflation and unemployment is just an ideological and political attempt for the adoptation of monetarist policies and shaping the intervention of the state to the economy not for the sake of all, but for a particular class.

The state which is formulated as a complementary actor that accomplish the systemic deficiency of capitalism to full employment, with its role as a direct investor has reformulated through Philips Curve which inaccurately dictates a trade of between unemployment and inflation.

2. 3. Keynesianism: Market plus state

In the concluding chapter of *General Theory*, Keynes identified three tasks in order to keep capitalism from its demise: parting with liquidity , euthanasia of the rentier and the most importantly, the socialization of investment. The principal policy message of Keynes is not the counter-cyclical fiscal policy nor even the virtues of cheap money, but rather the inescapable necessity of '*a somewhat comprehensive socialization of investment*' as 'the *only means of securing an approximation to full employment*' (Howard &King, 2007)

As Carl Biven indicates, the most important objection of Keynes to classical economy is on that question: is a capitalistic system self-regulating in the sense that it automatically tends toward full employment? The answer of this question by Keynes is related with his approach to the crisis and inefficiencies in the capitalist mode of production. (1989)

2.3.1 .Keynes on Monetary and Fiscal Policy

Keynes considers the major problems of modern capitalism to be involuntary unemployment and "*its arbitrary and inequitable distribution of wealth and incomes*" (1936, p. 372), but it is obvious that For Keynes, the social irrationalities stemming from *laissez-faire* undermine the all aspects of capitalist society. (1936)

This lack of organization in laissez faire capitalism ultimately necessitates a transformation in the role of government from a minimalist one to that of the Interventionist State so as to reach full employment level.

Keynes bases his assumptions about economic policy on two basis. Firstly, Money and credit are too important in macroeconomic equilibrium that they are not left alone to the "myopic" expectations of free bankers. For Keynes, a stable monetary regime is a public good that ought to be provided by central banks and there ought to be complex and efficient regulations on commercial banks and financial institutions. The well-known motto of Keynes that "finance is a national matter" indicates his awareness on the need for strict regulations on rentier capitalists seeking just for profit on all costs. Second point that Keynes severely emphasize is the wage formation. He claims that wage formation is too serious that cannon not be left to organization of pure or unfettered market forces. For monetary policy Keynes states, "For my own part I am now somewhat skeptical of the success of a merely monetary policy directed towards influencing the rate of interest. I expect to see the State,, which is in a position to calculate the marginal efficiency of capital-goods on long views and on the basis of the general social advantage, taking an ever greater responsibility for directly organizing investment; since it seems likely that the fluctuations in the market estimation of the marginal efficiency of different types of capital, calculated on the principles I have described above, will be too great to be offset by any practicable changes in the rate of interest."(1936: 164)

Although he is a member of neoclassical school, Keynes rejected the most important tenet of classical economy that is called "Say's law". What Say's Law claims is that in a capitalist economy effective demand and supply tend to be equal. According to Say's Law, a long-term economic crisis is impossible because, economic crisis are periods, during which commodities cannot be sold and workers become unemployed. In other words, these are the times that aggregate supply exceeds aggregate demand. Thus since the market is self adjusting, automatically these disequilibrium between supply and demand is going to be adjusted in a new point.

Keynes disagree with Say by saying that, "*Say's law, that the aggregate demand price of output as a whole is equal to its aggregate supply price for all volumes of output, is equivalent to the proposition that there is no obstacle to full employment. If, however, this is not the true law relating the aggregate demand and supply functions, there is a vitally important chapter of economic theory which remains to be written and without* *which all discussions concerning the volume of aggregate employment are futile."*(1936, 21)

Keynes indicates under which circumstances the full employment level can be reached through state intervention in the economy. As Lapavitsas indicates, "*Keynes argued that aggregate demand systematically falls short of aggregate supply in capitalist economies. For Keynes, the systematic deficiency of aggregate demand means that free markets fail to clear, thus producing mass unemployment." (2005:32)*

2.4. The Main Approaches to the Economic Crisis

Two mainstream approaches Liberalism and Keynesiansim, can be classified while evaluating economic systems and the place of crisis within it. Liberal approach, named as Laisse Faire has its roots in Adam Smith's explanations. Adam Smith's conceptualization of invisible hand gives market a holy character that market regularly can reach optimal efficiency and provide the best distribution of resources for its reproduction. In other words, capitalism is a self-regulating, efficient and harmonious system and under every circumstance due to supply and demand general equilibrium can be reached. According to Liberalism, therefore, there is no possibility for crises under a self-regulating market mechanism. For liberalism, economics is the mechanism to satisfy the unlimited human needs with limited resources. This approach brings with itself a priori assumption that capitalism with its own anarchy and inequalities is a direct reflection of human nature including its unlimited desires. Capitalism by reflecting selfishness and competition of human nature is the only possible system until a change in eternal human nature. Although it is not possible for this kind of a system to beget serious crisis, sometimes due to external factors system may face with recessions and depressions. However, through equilibrium mechanism system can reach the level before the problem and also overcome all problems. For instance, what is responsible for Great Depression is a sudden panic in the banks or governments which do not print money to help crashing companies, for Depression in 1970's is the authoritarian petrol leaders or governments with their budget deficits. Therefore, there is no need for an outside intervention and for thinking about depression. However, after Great Depression that has destroyed lives of millions of people almost all over the world made a huge impact on this idea of self-regulating market. During ten years after crash in Wall Street, poverty and unemployment became a chronic problem that market mechanism do not suffice to solve and Keynesianism has based its assumptions on weak points of Laissez Faire liberalism and propose some economic policy options to make capitalism more manageable. First of all, Keynes rejected Say's law, one of the fundamental tenets of economic liberalism which claims that effective demand and supply in a capitalist economy tend to be equal. What is important in this approach is that crises are periods during which commodities cannot be sold and workers are unemployed. In other words, these are periods during which aggregate supply exceeds aggregate demand. Automatically when commodities are not sold, their price diminishes and reaches equilibrium. Therefore, there is no possibility for long lasting, spontaneous crisis in Capitalism. On the contrary, Keynes claims that aggregate demand always have a tendency to fall short of aggregate supply and this situation almost produce mass unemployment. Another point that Keynes criticizes is the quantity theory of money which claims that the level of prices are ultimately determined by the quantity of money. Thus, the rises in prices are the direct result of an expansion of money supply. Keynes shows the tendency of capitalist for hoarding money which means the hoarding of purchasing powers of other and also preventing effective demand necessary for eliminating the unsold commodity stock and unemployed workers. To sum up, For Keynes, Laissez Faire economics are characterized by systemic deficiency of aggregate demand, so state interventions to economy in hopes for reaching full employment is legitimate and provides more sustainable capitalism. Although Keynes provides legitimacy for state intervention, his basic assumptions are not contradictory with liberal assumptions considering individual as a rational actor and also most importantly, his theory of value does not base on a theory of value that differs from that of laize Faire tradition. Therefore, we can consider Keynesianism and Liberalism as the two sides of the same coin, which is capitalism. Another basic similarity about crisis is their a priori assumption that external factors lead system to provide crises. For Liberalism, the main reason for crisis is the exceeding state intervention more than necessary and For Keynesianism, the main reason is the lack of necessary state intervention to the economic system.

Marx and the first generation of Marxists believed the prescription of *The Communist Manifesto*, that the inherent contradictions of capital accumulation would lead to a progressive polarization of society between a diminishing minority of capitalists and a growing majority of workers. Through their struggles against capitalist exploitation, workers would develop organizations which would expand to embrace the mass of the working class, who would learn through the experience of failed struggles that only the complete overthrow of the capitalist system and the creation of a new form of communist society could provide them with a secure existence and fulfilling life. Until the outbreak of the First World War this analysis seemed to have proved broadly correct, but the mobilization of the working class of the capitalist heartlands in support of an inter-imperialist war, rather than a revolutionary transformation of society, and the brutal defeats of working class struggles in the 1920s and 1930s showed that the development of revolutionary consciousness in the working class and the progressive growth of working class organization was by no means inevitable.

Marx shows that capitalism differs from previous modes of production, because its relations of productions are opaque. Therefore, Marxism starts its analysis on the relations of production between exploiters and exploited. Exploitation is the buzzword for Marxism, because it rejects the liberal view that considers labor as a commodity and a factor of production not different from land and capital. For Liberalism, people as other commodities sell their labor and take their money. Marx rejects this relation because he considers it as a legal way of exploitation. Marxism is the only tradition that accepts the crisis-prone character of capitalism. Marxist tradition that bases their assumptions on the critique of classical political economy indicates the motivation of capitalist mode of production and its endemic antagonism resulted from this motivation that is nothing different from thirsting for rising surplus. There are two distinct theories that one is *"the theory of the tendency of profit rate to fall"* (Marx) and as a derivative of it, realization crises(Luxemburg,2003) and the crises of disproportionality (Mandel, 1973) and the other is *"the theory of rising surplus"* that explain intrinsic tendency and necessity to spread out of capital .(Baran and Sweezy) It is necessary to realize profit-oriented characteristic of capitalism so as to elaborate on organic connections between capitalism as a mode of production and the globalization of capital. Moreover, the supreme contradiction of the capitalist system is between *the effective socialization of production* as a result of progressive effect of generalization of the capitalist production and *the private*, *capitalist form of appropriation* leading to appropriation of surplus value favoring capitalists at the expense of labor who have nothing to sell rather than their labor power.

2.5.Concluding Remarks

Neoliberalism becomes truly hegemonic in the sense that its particular prescription about political economy is universalized as “natural”. The basic premise of liberal is the concept of self-regulating and self-correcting market governed by objective rules and universal laws. On the contrary, the spontaneous existence of the market is a myth that is generally used ideologically to take the support and to get the consent of masses by reflecting liberal economy as the sustainer of the wealth of nations as a whole. The historical records reject the spontaneous existence of the market and indicate that the genesis of a separate economic system that dictates its rationality to the members of society was based on a *political act* that deregulates state protection on men and women and forced them to sell their labor power and privatize the use of land and the use of money. (Polanyi, 1957)

Since Adam Smith and the laissez faire school of political economy, another mythical tool for ideological purposes is the doctrine of the harmony of interest as the basis that keep people's own economic interests on the services of the interests of the whole community. Monetarism on the one hand praises the natural character of market and the natural harmony of interests and makes reference to the unsatiscfactory, unlimited desires of human nature, to naturalize its economic prescriptions and on the other hand, through it quantity theory of money and the Philips Curve make justifications to its monetary policy. By making reference to the quantity theory of money, it aims at curbing the fiscal expenditures of state and through Philips curve it forces people to make a trade of between unemployment and the inflation.

Both Monetarists and Keynesianists theoretically focus on the continuation of the accumulation of capital and the welfare and prosperity of nations. However, their ultimate goals are similar; the policy tools as a means to their ultimate goals are ultimately different in the way that state intervenes in the economy. While Monetarists consider market as a self efficient and self-sustaining entity that can regulate the whole economic system under the organization of "invisible hand", on the other hand Keynes and his followers diagnoses the systemic deficiency of aggregate demand in capitalism and propose direct state intervention through fiscal and monetary policy and more importantly through the socialization of investment that make state a spender, an investor and a producer. Another important criticism of Keynes is on the finance capital and his metaphor, "the euthanasia of rentier" that paved way to the restriction of finance capital and international financial private banks.

The discussion of the theoretical basis of both Keynesianism and Monetarism and their approaches to the economic crisis is the key to understand the transformation of state both in the postwar period and the after 1980's which is going to be followed in the next chapters.

CHAPTER 3

3. FROM THE BRETTON WOODS SYSTEM TO NEOLIBERALISM

Although the history of political economy is not the history of ideas on economy and politics, Keynes' ideas certainly had a powerful influence on the theory and the practice of political economy. Keynes' criticisms to unfettered market that is independent from the active intervention of state, actually has great impact on the formation of state-market relations and on the accumulation regime following two Great World Wars- the only thing that was great is their names- and one of the most devastating "Great Depression" in the history.

As it is indicated in the first chapter the main liberal economic argument that Keynes' starting point for criticism, and also this criticism reformulates the functioning of the state in the economy, is that markets tend automatically toward a socially beneficial equilibrium. According to Keynes, free market economy always has a chronic tendency to unemployment, and the lack of demand resulting from unemployment ultimately leads to the economic and social devastations following economic crises. The main formation of the state in the post-war period was based on the complementary role aiming at full employment in order to curb the deficiencies of market. For this purpose, Bretton Woods system had shaped the international monetary relations and the

Keynesian measures that are implemented by states had paved way to the existence of Keynesian National Welfare State, in Bob Jessop's terms.(Jessop,2003)

3.1. Bretton Woods Monetary Regime

The breaking out of the World War II damaged the monetary relations and brought exchange controls and the Bretton Woods Conference that was held in 1944 aimed at establishing the post war international monetary regime in order to increase trade and cooperation for the sake of the liberal belief that nations that are integrated in trade relations do not fight each other.

In Bretton Woods Conference, the pegged exchange rate was adopted to provide sufficient monetary stability and increase international prosperity by international trade. In addition, this pegged exchange rate was adjustable so as to lead countries to pursue domestic economic policies related with employment and inflation. According to Cohn, Bretton Woods system has three major elements including firstly an adjustable pegged exchange rate, secondly the foundation of IMF to help countries suffering from short-term balance of payment problems and lastly the national controls over capital flows.(Cohn, 2005)

The Bretton Woods Monetary Regime (BWMR) was a gold-exchange standard in which the value of each country's currency was pegged to gold or US dollar. One U.S dollar was pegged to 35 ounce gold. The distincive point in the exchange rate in BWMR is that all countries in the short run was bound to fixed exchange rates. However, due to difficulties and problems in the balance of payment, all countries except for USA had the option to revalue or devalue its exchange rate under the guidance of IMF in order to correct balance of payment problems. The floating rates of of 1930's were considered as discouraging trade and investment and encouraging speculation and competitive depreciations. However, the rigid exchange rate regimes in the 1920's were seen as harmful to trade and investment. Therefore, participants in the Bretton Woods Conference choose a middle way that has existed in the adjustable pegged exchange rate. (Cohn,2005)

Another argument that established the basic tenets of BWMR was the idea that *"speculative capital flows had contributed to great instability during the interwar period, and the powstwar negotiators feared that speculation could undermine the efforts to maintain pegged exchange rates and promote freer trade under the Bretton Woods Regime."* (Cohn, 2005:78)Especially later on, these concerns on the speculative capital flows has come into existence on the "impossible trinity theory"

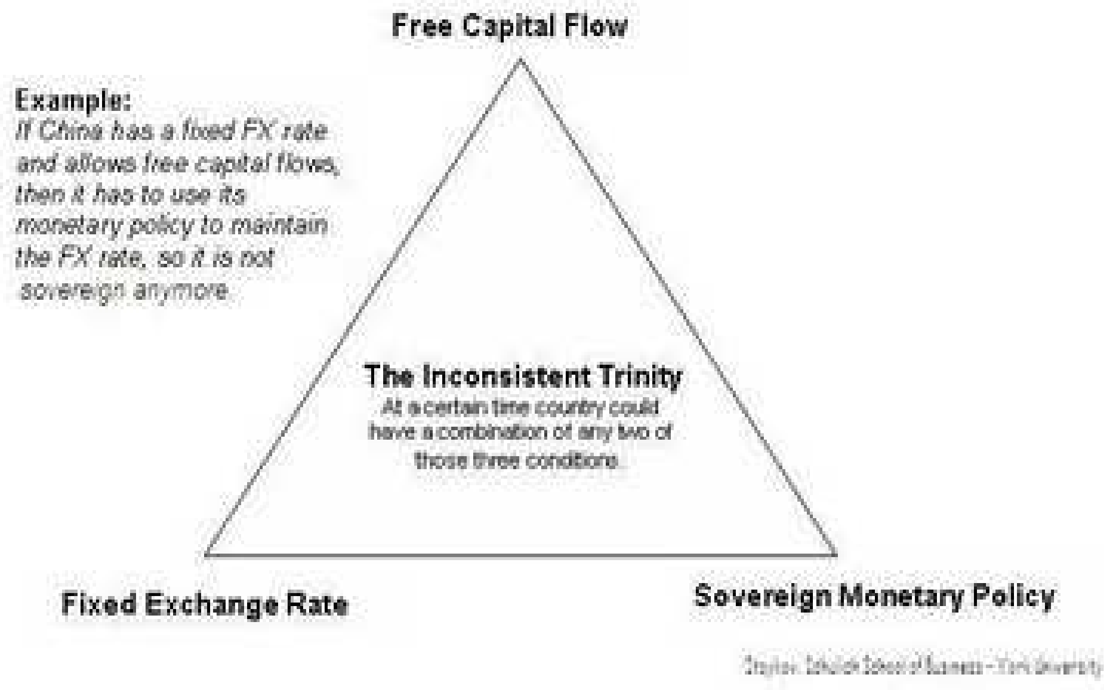


Table 1: Impossible trinity principle

According to Impossible trinity principle, (the unholy trinity) it is not possible to have a fixed exchange rate, an independent monetary policy in international economics and free capital movement at the same time. For instance, domestic interest rates are always influenced by world interest rate inevitably in an open, integrated world system.(Cohen,2005) In other words, at a certain time a country could have any combination of two of those three conditions. This hypothesis openly shows why the system in Korea became inefficient after financial liberalization. In Bretton Woods system, fixed exchange rate and monetary and fiscal policy that provide policy autonomy in determining their policy objectives and tools were applied and restrictions on speculative private financial flows were applied. With the end of Bretton Woods system, countries made a transition from fixed exchange rate to floating exchange rate and diminish controls over financial capital.

3.1.1 The Foundation of IMF

The Bretton Woods System and its institutions had established in order to contribute "to almost unprecented global economic growth and change over the past five decades." In 1944, IMF and World Bank (International Bank for Reconstruction and Development) has founded with great hopes for their ability to create the conditions for post-war prosperity… The founders saw the IMF's purpose as obtaining the objectives of world-wide sustained prosperity through increasing national autonomy over economic policy." (Harris, 1988)

The debates during the foundation meetings of IMF were between two parts, liberals and conservatives. Harris summarizes these debates with two articles in order to understand the IMF' position,

1)The construction of the new system was strongly conditioned by competition between the USA and Britain for the leadership and economic domination of non-socialist world.

2)It was also strongly conditioned by a struggle between liberal and conservative economists and politicians. The prize was post-war institutions that would guarantee the adoption of their respective policies and this struggle centered in part on the question of whether the IMF should operate its lending policies like a bank or more like a cooperative fund. (1988: 313)

Harry White Dexter proposed the central role of IMF in the new economic system as following,

1)That when countries run balance of payments deficits, credits should be available to them to ensure that their governments could pursue Keynesian policies and increase their spending without outside pressure , thereby maintaining full employment and effecting social reforms.

2)that channeling funds through an institution such as the IMF, controlled by member governments, was preferable to having flows of international capital under the control of private banks and private investors. (1988: 314)

However, White as the representative of USA supports individually Keynesian views that aims at upgrading the national autonomy of state over economic policy and the cooperative role of IMF rather than implementing harsh credit conditionalities upon indebted countries, the stance of US Department and the interest of the major business sector had led to on the one hand multilateralism which means that all countries should open their frontiers to trade with all others without discriminatory import duties and import quotas and also all currencies should be freely convertible in order to lead capital flow freely from one currency to another and also from one country to another and on the other hand, conservative economic policy that means a country that has access to IMF loans ought to apply firm policies to cure balance of payment deficits and if necessary, should sacrifice national goals such as employment and growth. (Harris, 1988)

3.1.2. The Quota System

The IMF is owned by its members and the ownership is distributed due to a system of quotas which *" the size of quota is determined by a complex formula that incorporates the size of the economy, the percentage of the economy involved in international trade and the value of foreign exchange holdings"* (Goddard,2003:248) The quota is the most fundamental voting power in the IMF' decision making process. According to their quotas, Industrial countries inevitably have a majority of votes in the Executive Board of IMF. Such distribution of votes in accordance with quotas has caused a dilemma in such a way that IMF organized for the balance of payments problems of developing countries ,for a cooperative purpose as a lender of last resort, is not controlled by developing countries. In exchange for loans that are provided from developed countries, developing countries has been subjected to firm policies that ignores developmental goals of states. The conditionality of IMF loans is totally ideologically blind to the concerns of indebted countries and is totally based on a strict commitment to the liberal economic theory supposing minimum role for government and the well-functioning of the market, regardless of specific and unique economical and political conditions of the recipient countries.

3.1.3. IMF and Conditional Lending

The IMF provides financial assistance to countries under three broad set of programs. First is one is the well-known Standby Arrangements that are designed to address short-term balance of payments problems. Second Program provides funding under special facilities for countries that have specific needs and circumstances and the last program provides concessional financing for low income member countries. (Goddard,2003)

The IMF defines Standby arrangements as follows,

> "The bulk of Fund assistance to middle-income countries is provided through SBAs. The SBA is designed to help countries address short-term balance of payments problems. Program targets are designed to address these problems and Fund disbursements are made conditional on achieving these targets ('conditionality'). The length of a SBA is typically 12–24 months, and repayment is due within 3¼-5 years of disbursement. SBAs may be provided on a precautionary basis—where countries choose not to draw upon approved amounts but retain the option to do so if conditions deteriorate—both within the normal access limits and in cases of exceptional access. The SBA provides for flexibility with respect to phasing, with front-loaded access where appropriate." (http://www.imf.org/external/np/exr/facts/howlend.htm)

The loans that are provided under Standby programs are conditional in the sense that the recipient country ought to apply appropriate, stipulate specific policies and measures in order to resolve its balance of payments problems and ought to subscribe absolutely that it could not follow any policy different from IMF policy prescriptions in a "Letter of Intent". The economic and political implications of Standby agreement for the balance of payments problem of countries dictated does not just include curing of deficits but a new formulation of the relations of state and market in the short run that the thesis is going to focus on further parts.

3.2. Keynesian Welfare National State

The Keynesian welfare national state (KWNS)

Distinctive set of economic policies	Distinctive set of social policies	Primary scale (if any)	Primary means to compensate market failure
Full employment, demand management, provision of infrastructure to support mass production and consumption	Collective bargaining and state help generalize norms of mass consumption. Expansion of welfare rights	Relative primacy of national scale in economic and social policy-making with local as well as central delivery	Market and state form a 'mixed economy'. State is expected to compensate for market failures
Keynesian	*Welfare*	*National*	*State*

Table 2: The Keynesian welfare national state (KWNS)

As Bob Jessop's table above indicates (2003:59), The post-war state formation in the West includes four dimension on the basis of distinctiveness. As a distinctive set of economic policies, KWNS followed full employment, demand management, provision of infrastructure to support mass production and consumption. KWNS was truly Keynesian in the sense that it promoted the conditions for the profitability of private capital by providing necessary external and internal conditions for capital accumulation in coordination with securing the full employment and primarily through with demand-side management. The primary goal of KWNS was to adjust effective demand management depending upon the necessities of Fordist mass production organized and restricted by the economies of scale and full utilization of relatively inflexible means of production.

Another point that can be adhered to Keynesian state as a distinctive role is its national character. What national means is that, in Jessop's terms, " *the primary responsibility for developing and guiding Keynesian Welfare policies on different scales…. The various postwar international regimes linked to Atlantic Fordism (KWNS) were mainly intented to rescue European national states, to restore stability to national economies, to create the conditions for domestic economic growth, to promote international cooperation to underwrite the smooth operation of national economies and, where possible, to secure and reinforce their complementarities rather than to abolish these economies or integrate them into superimperialist system."* (2003:60) The priority of KWNS as a result to the implications of Great Depression and two world wars is the national control of state over economic policy. Keynesian approach that puts forward the socialization of investment as an end to full employment was not totally but substantially adopted by Western countries through transformation in the role of government from a minimalist one to that of the interventionist State.

In general during the post-war period, but especially at the end of 1960's, national economy and national state was naturalized in dependence with Fordist type of mass production and mass consumption. As a result of Marshall Plan, which was the primary program, 1947–51, of the United States for rebuilding and creating a stronger economic foundation for the countries of Europe, and the development of European Economic Community, the national state has reached the highest stage. (Jessop, 2002)

Fourtly, the KWNS was statist in such a way that it defines the role of state in the economoy as complementary to private firms and market forces in the Fordist accumulation regime. Great Depression obviously indicated that the laissez faire system could not automatically have an ability to reach the full employment level and since the system absolutely cannot guarantee the full-employment level of private investment, it is up to the State to ensure that this is accomplished.

Post-war era was the reconceptualization of the role of the state without deviation from demarcation between the state and the market. From the mid 19th century to 1930's, laissez faire that emphasizes the autonomy of market as a distinct sphere from politics was the principle The role of the state was to set the rules and to enforce the rules. State was the "night-watchman" However, between 1945 and 1973-4; the role of state was redefined. In order to prevent market failures, state could steer the economy and also in order to deal with "have-nots", who may create a social cost for state, state could try to work for increasing the living standard of its citizens. This does not mean the end of clear distinction between the state and the market. Embedded liberalism emerged as a result of need to extra-market coordination; state was an enabling factor that contributes to capital accumulation and the market. State's new mission that is to deal with have-nots paved way to state policies called "Welfare State". Therefore, it was necessary to organize a new compromise between capital, labor and state so as to minimize the economic risks. Workers should be paid enough income to keep demand high. It is a fact that wage earners are at the same time possible consumers. Under the guidance of theory of Keynes focusing on full employment and demand management, states considered to reorganize and to reformulate the relationship between labor and capital for the sake of preventing economic crises. In addition, another role that was attributed to state was to provide security mechanisms of social protection. As it is indicated before, role of state was redefined in relation with market, but as Jessop indicates, important variations emerged due to various path dependent institutions and motivations of different states. Path dependence shows that states develop subsequent institutions dependent to earlier institutions, which does not only constrain them but also shape incentives to regulate them. Esping-Andersen classifies four different types of welfare regimes three of which belongs to European states, on the basis of the role of state in resource allocation. These different welfare regimes are Scandinavian, Continental and Anglo-Saxon types. (Esping-Andersen 1985, 1990)

After the WW II, states took into account the fact that security does not only include security against external states, yet it could include the more important aspect which provide peace and prosperity within the borders of a nation state. That was the domestic security. It was believed that within a country's national border, an elected national government is powerful to provide social security regardless of participation in the workforce. Bretton-Woods system including fixed exchange rate produce the possible bases for states to make adjustments to restore the balance of payments. As it is going to be indicated later, BW system does not include countries which have totally closed economies, but states have ability to control their own economic boundaries and the conditions regulating transnational economic transactions. This control also paved way to ignorance of possible exit of capital owners, tax payers and consumers. The limitations on speculative financial flows gave countries the ability to reduce macroeconomic fluctuations through Keynesian demand management and to manage high rates of economic growth and full employment. It is better to look at Bretton Woods system as a whole and later to focus on specific countries belong to three different welfare regime in Europe.

The most distinctive characteristic of Bretton Woods system is that it impose limitations on financial flows in order to provide national dominance over capital within nation states while it aims to increase interdependence through rising trade and production, and that is this dominance which led countries to development under Welfare Regimes. Multilateralism shape regimes of trade and production. It was believed that increasing interdependence contribute to the abandonment of wars and disorder. For this reason, freedom of movements of good by reducing custom duties and barriers to trade and promotion of movement of capital in the form of foreign direct investment were promoted by new Bretton Woods institutions such as IMF and World Bank .Fixed exchange rate regime was adopted in order to prevent a crises emanating from speculative financial flows. 1$ is fixed to 35 ounce gold and dollar started to be used as a medium of exchange. As a result, reconstruction of world market under US hegemony supported by US containment policy on a limited geography, excluding communist countries in the East had succeeded.

With Bretton Woods system, state and market relations were redefined. The role of state was reconceptualized in a liberal economy. In general, liberal economic system is based on institutional separation of state and market. Polanyi defines this situation as "the primacy of the economic motive in Western liberal societies is based on the view of the institutional separation of society into an economic and political sphere"

(Polanyi,1957:71) In addition, contrary to mercantilist era that politics had full domination over economics ,in liberalism, economics has priority and domination over politics. State just set the rules of market and enforce these rules .Apart from this role of state, every intervention inevitably lead to disturbance of market relations. Given this separation of politics and economics, the liberal political economy is self-sustaining. In Postwar period, it is discovered that sometimes there needs to be a state intervention into economy when market failures emerge. There needs to be a compromise between private and public sector. State, either by steering the economy or increasing living standard of its citizens takes an active role in the market, but this does not mean that state-market demarcation is violated. State and market are separate, but they complement each other. This new role of state is described by Ruggie's concept "embedded liberalism"(1982). Interestingly, Anthony Crosland defines what Ruggie labels as embedded liberalism as an end to capitalism in Britain.(2006) He does not prefer to call new regime Welfare regime, but he obviously states that the new regime is the end of capitalism, because of two reasons. First one is the nationalization of key industries that brings an end to capitalist's cartel over the means of production and the second is the people's reliance on full employment. For him, these two policies cannot be undermined by any of the capitalists. (Crossland,2006)

In the existence of advantages of BW system, three groups of different countries adopt different sorts of Welfare Regimes. Scandinavian Welfare states including Sweden, Norway, Denmark and Finland assure a very important role in regulating capitalist economy. They had redistributive power to the benefit of the vast majority of the population through general taxation. In exchange for very high taxes, they provided publicly provided child care, pre-school education, health care, and home care for the aged to people and also provide free, married women chance to take part in production process through finding them jobs. Therefore, public sector employment was very high. These countries preferred income tax rather than social security funds in financing the welfare policies and they did seek to provide certain services to the population on the basis of citizenship criteria, not on the basis of their participation to workforce or their contribution to social funds. In addition, the levels of total employment was very high and the participation of female to labor market was very high too because states have a policy to encourage women to work and also find them jobs. Income inequality and social inequality was very low because these countries collect progressive taxation that was proportional to their income, and the low rate of employment in public sector and the high rate of employment in public sector contributed to diminish the gap between private sector employees and public sector employees.

Continental Europe Welfare Regime is the medium between Universalist Scandinavian and minimal Anglo Saxon model. Different from Scandinavian model, criteria in providing certain services to population was not the citizenship criteria; rather it is your occupation that decides the amount of social services that you were served by state. Your position in the market, was important than being just a citizen. Services that citizens could take were proportional to their contribution to market. This inevitably led to deepen the inequality between people belonging to different social positions. Another difference was that state finance welfare regime not through general taxation, but through social security funds. In these countries, the level of income inequality or wage differentiation was low or moderate. As a result of full employment policy, total employment was very high.

Last one is the Anglo Saxon Welfare State. According to Beveridge Report in 1942, people were in need of economic and social support. (Abel-Smith,1992).Basing their assumption on the idea that during the war, workers also contribute to the victory, it was recognized that citizens had a right for a minimal social system. This report recommended that there was a need to follow policies including general taxation and social security contribution on the basis of need. State should support people who were not able to satisfy their minimum needs. In the existence of the distinction between state and market, state was not considered as efficient in allocating resources. Thus, the role of state should have been kept minimal in order not to disturb functioning of market and state just had a complementary role when there was a market failure. Total employment is high, but the differentiation between incomes and wages was really high, taxes were very low and so, social services provided to people is in proportion as taxes were low to moderate. (Esping Andersen, 1990)

Common characteristics of that era were that all 3 types of welfare regime allowed states to have a higher or lower role in the market-based economy. Full employment was a post-war situation and goal. However, regimes differed from the role played by public sector and private sector on employment. Full employment has a character of male domination that leads to gender segregation in the operation of the market. State was attributed to certain roles related with regulation, distribution and ownership. Either it is minimal or more, state took active part in the regulation of allocation of resources that had been left to autonomous market in laissez faire time. State was obliged to arrange redistribution through taxes and social security funds. Through the nationalization of some key industries, even in Britain, states became owners of means of production. It is obvious that the most important aspect of that era was that the limitations imposed on financial flows and the fixed exchange rate regime of BW system generated countries to have a control over economic activities in their national boundaries and gave states the opportunity to reach development through Keynesian demand management policies and full employment strategy.

3.2.1. Import Substitution and the Third World

The basic tenet of Import Substitution is that a country should attempt to reduce its foreign dependency through the local production of industrialized products. Import substitution means " *a set of ideas about why mass poverty has prevailed and continues to prevail in many countries while other countries have grown rich, and about a general approach to the elimination of that poverty."* (Bruton,1998:904) Prebisch, one of the most important theorists of Import Substitution, defines the necessity for an industrialization process as such " *Historically, the spread of technical progress has been uneven, and this has contributed to the division of the world economy into industrial centers and the peripheral countries engaged in primary production, with consequent differences in income growth"* (1959:251)

Following the Great Depression from 1930's to 1980's adopted in many Latin American countries, Import substitution strategy was considered as an independent way for economic development. Its assumptions were based on Keynesian premises and the fordist type of mass production and mass consumption. As parts of unequal exchange and as also parts of uneven development, the third world counties had decided to change their unequal position as an exporter of primary products and as an importer of durable goods (industrial and technological goods)

The main theoretical practices of ISI was based on an active industrial policy to subsidize and orchestrate production of strategic substitutes, protective barriers to trade (e.g. tariffs, quotas etc.), an overvalued currency to help manufacturers import capital goods (heavy machinery and other means of production), and discouragement of foreign direct investment.

3.3. The End of Bretton Woods System

From 1965 to 1973 was a period that the inability of Keynesianism and of Fordism to hold the inherent contradictions of capitalism became more visible. Starting in the early 1970's with the world economic recession, the post war economic boom began to collapse, marking the onset of a radical restructuring of the world capitalist system. This golden age of capitalism (1950-1970) come to a stop because of on the one hand, the current account deficit of US became unsustainable and also capital account deficit through Vietnam War was very high and on the other the loose monetary policy that was adopted to contain the momentum of postwar boom and the oil crisis following the 1973

Arab-Israeli War. The rising inflation combined with the high rates of unemployment was resulted with a stagflation crisis. However, these were not the cause of crisis, but just the breaking points .The main cause was on the falling rate of profit due to the internal contradictions of Keynesian Capitalism. The real cause of the crisis has necessities a detailed analysis of that particular period in the sense that Kawakami puts,

> "The destiny of any science is to run counter to the common sense that prevails. There would be little need for science if the layman were able to understand an object through simple thought that does not rely upon scientific examination. But what the layman thinks is often the reverse of the essence of reality, making it necessary to overturn such thought through the scientific consideration of a given matter. This means that science is destined to struggle against common sense, so that only a courageous person is capable of becoming a true scientist."(Kawakami, 1928)

3.4. The first phase of global neoliberalism: The military making of market in Chile

The theories of Milton Friedman gave
him the Nobel Prize; They gave the Chile General Pinochet

Eduardo Galeano, **Days and Nights of Love and War,1983**

In a letter to Pinochet, Milton Friedman wrote, *" If this shock treatment were adopted, I believe that it should be announced publicly in great detail, to take effect at a very close date. The more fully the public is informed, the more will its reactions facilitate the adjustment."* (Klein,2007:75)

The first sentence of Marx's the eighteenth Brumarie of Louis Bonaparte is that "*Hegel remarks somewhere that all great world-historic facts and personages appear, so to speak, twice. He forgot to add: the first time as tragedy, the second time as farce. Caussidière for Danton, Louis Blanc for Robespierre, the Montagne of 1848 to 1851 for the Montagne of 1793 to 1795, the nephew for the uncle. And the same caricature occurs in the circumstances of the second edition of the Eighteenth Brumaire.* (1963:1) September 11, 2001 was a black date for USA. A series of coordinated suicide attacks by al-Qaeda upon the United States was conducted to World Trade Centers and Pentagon. The death toll of the attacks was 2,995, including the 19 hijackers. These attacks were not a *"farce"* repetition of a tragedy as Marx indicates, it was also a tragedy. However, the date, September 11, had been the date of starting point of another tragedy that the people of Chile has suffered since 1973. The General Pinochet supported by US Government, overthrow Allende's socialist Government with a *coup d'etat.* Since then through 1990's the economic policies of Chile was made by a military dictatorship under the guidance of the recommendations of economists trained at the University of Chicago without any or limited opposition from democratic institutions that could be resisted to the authoritarian government led by the military junta of General Augusto Pinochet Ugarte.

Which policies applied Chile is our main concern here is because there are vital similarities between policies applied in Chile after 1973 military coup supported by America which replaced Salvador Allende elected leader with General Pinochet and policies applied in nearly all countries that has been objected to structural adjustment policies. David Harvey clearly indicates what Chicago Boys did in Chile under military regime. He states:

They did so along free market lines, privatizing public assets,opening up natural resources to private explotation and facilitating foreign direct investment and free trade.The right of foreign companies to repatriate profits from their Chilean operations was guaranteed.Export-led growth was favoured over import substitution. (2007:23)

Moreover, in order to achieve these goals, all social movements and political organizations of the Left were violently repressed. The labor market was freed from regulatory and institutional restraints for the sake of more flexible labor market, trade unions were abolished.

When we take a deep look in Iraq, conditions after invasion does not seem different. Naomi Klein describe well the picture of economic destruction in Iraq,

> *"Iraq was going to change at all. In one place on Earth, the theory put finally in practice in its most perfect and uncompromised form. A country of 25 million would not be rebuilt as it was before the war; it would be erased, disappeared. In its place would spring forth a gleaming showroom for laissez-faire economics, a utopia such as the world has never seen. Every policy that liberates multinational corporations to pursue their quest for profit would be put into place: a shrunken state, a flexible workforce, open borders, minimal taxes, no tariffs, and no ownerships restrictions. The people of Iraq would, of course, have to endure some short-term pain :assets , previously owned by the state would have to be given up to create new opportunities for growth and investment Jobs would have to lost and ,as foreign products flooded across the border, local businesses and*

> *family farms would be unable to compete. But to the authors of this plan these would be small prices to pay for the economic boom that would surely explode once the proper condition were in place, a boom so powerful the country would practically rebuild itself."*(2004:44)

Even if liberals claim that destruction of these economic policies are inevitable and temporary and when future gains are taken into account, destruction is small in scale. Basing their assumption on the understanding that "Nothing is free in this world", they demand people to be patient for temporary loses. However, as Naomi Klein indicates:

> *"The fact that the boom never came and Iraq continues to tremble under explosions of very different sorts should never be blamed on the absence of a plan. Rather, the blame rests with the plan itself, and the extraordinarily violent ideology upon which it is based."* (2004:44)

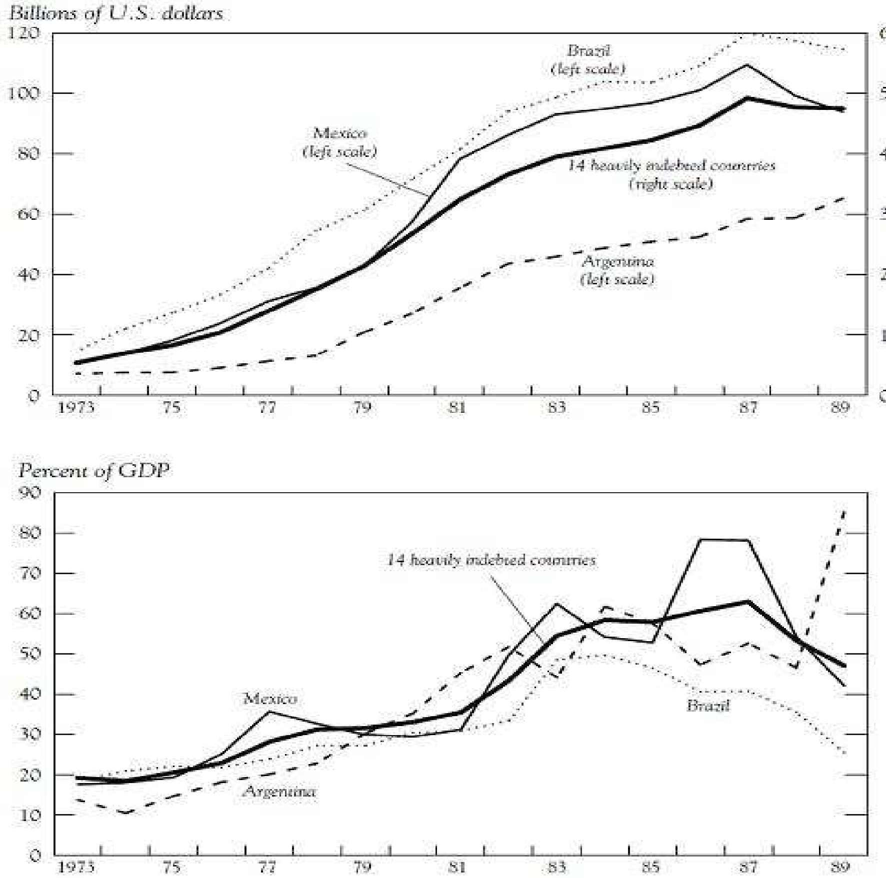
3.4.1. Mexico and The Third World Debt Crisis

The first result of the rise in the interest rate under Volcker Shock was the default in Mexico in 1982-4.In August 1982, Mexico declared that it could no longer pay its public sector debt. From 1976 to 1980, Third World countries such as Zaire, Argentina, Peru, Sierra Leone etc. had been in the discussion table for the negotiations of debt rescheduling. The announcement of Mexican default led private creditor banks to diminish the rate of credits that are destined to third world and inevitably trigger the debt crises almost as many developing countries. (Cohn, 2005)

Following the Third World Debt Crisis, The IMF and The World Bank had started to propagate and enforce the free market ideology and the neoliberal adjustment policies.

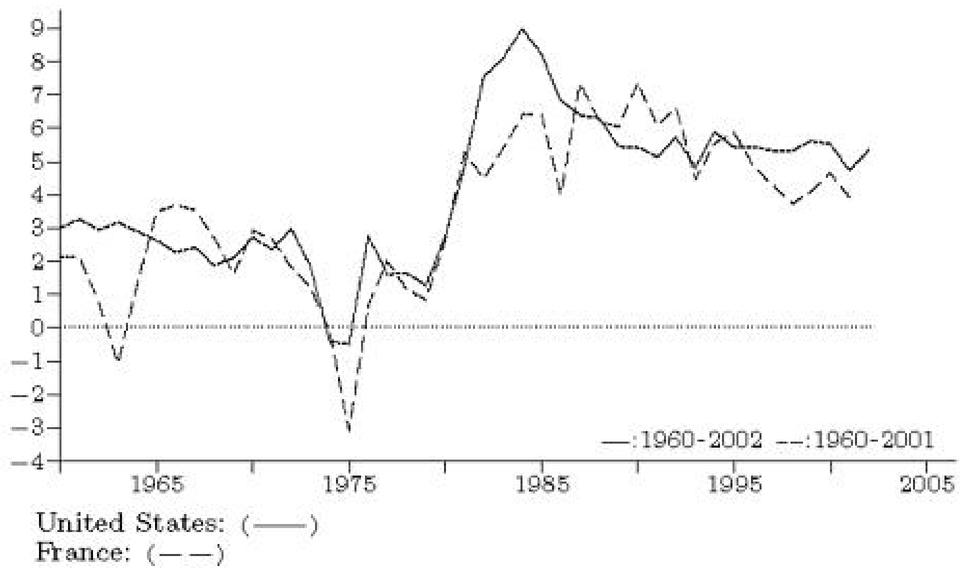
The Mexican government could not get new credit anywhere rather than IMF under the conditionality of standby and structural adjustment programmes.IMF and The World Bank that had supported the Import Substitution Strategy of Mexico prior to the debt crisis, began to push Mexican government to economic liberalization and privatization. (Topal, 2010) In exchange for debt rescheduling, indebted countries were obliged to implement institutional reforms, more flexible labour market laws and privatization.

External Debt of Heavily Indebted Countries, 1973–89

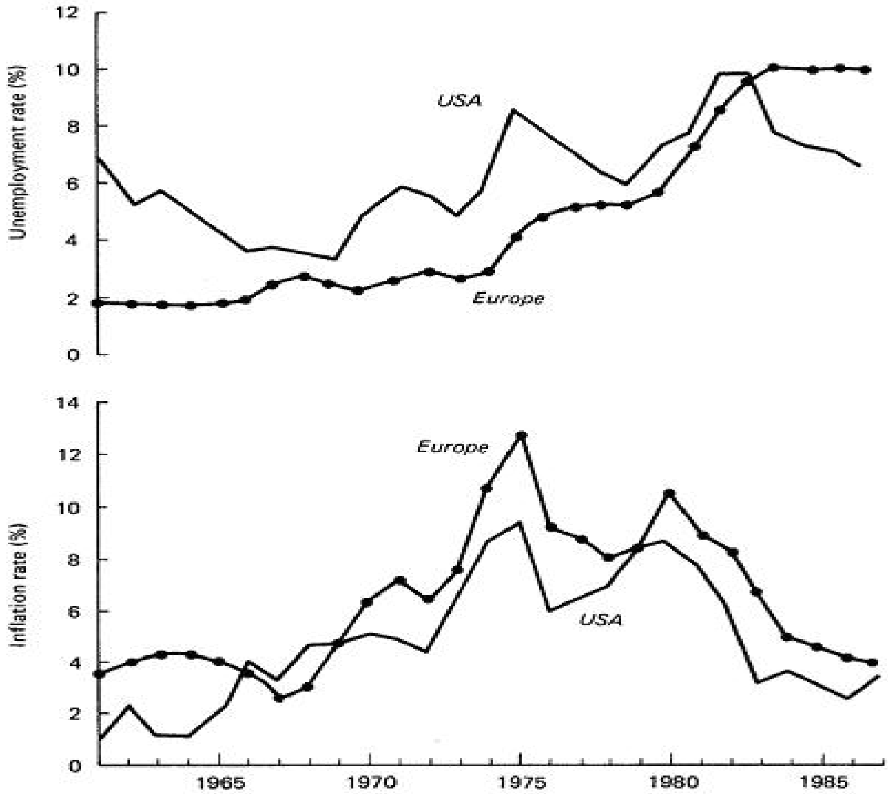


Graphic 2: External debt of heavily indebted countries 1973-89 (Harvey,1989)

Long-term real interest rates (%): France (– –) and United States (—)

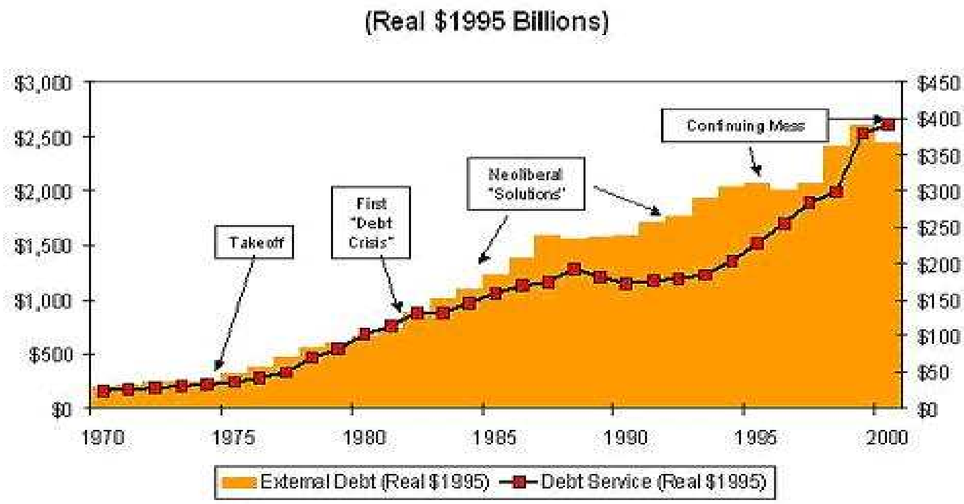


Graphic 3: Long term real interest rates; France and USA (Harvey,1989)



Graphic 4: Unemployment and inflation rates in Europe and the USA, 1961-87 (Harvey,1989)

3.4.2. IMF and The Third World



Graphic 5: Third world foreign debt and debt service, 1970-2000

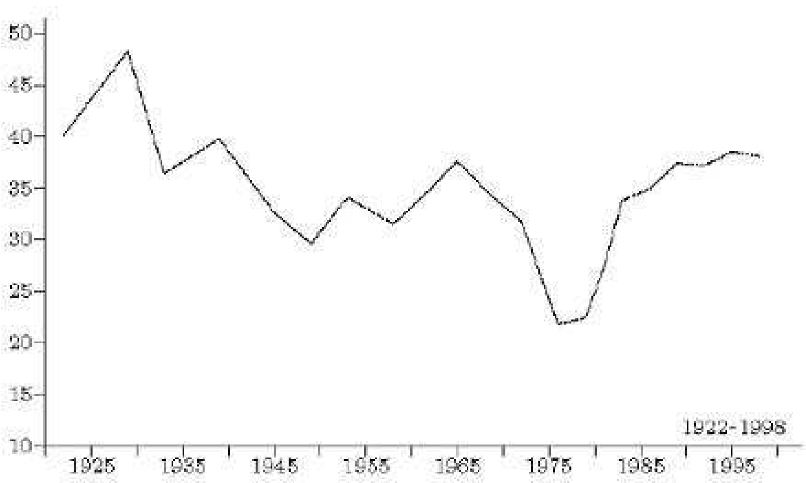
Following the 1980's Debt Crisis, IMF and The United States has adopted more activist policies. The IMF that had lost its prestige with the end of pegged exchange rate system and the rise of private banks in 1970's, was *" back at the center of international finance, first as a coordinator in a crisis, and then ... as a source of information,advice and warning on the mutual consistency of national states.* (Cohn,2005: 195) The objectives of international debt strategy are: 1) to prevent the collapse of international banking and financial systems, 2)to restore capital market access for debtor countries,3) to minimize economic dislocation and restore economic growth .Following the Mexican Debt Crisis, first Brady Plan between 1984-88 that included the postponement of some debts, the provision of new loans and changes in the policies of countries and then the Baker Plan between 1989 and 1994 different from the first plan in terms of the debt reduction had ultimately failed(Cohn,2005) As the chart above indicates, By the year 2000, the real level of Third World debt was 150 percent higher than it had been in 1985

Stabilization has always been in the main agenda of IMF since its foundation. Its central policy prescription aims at reducing the trade deficit by cutting aggregate demand. The basic components of the Fund is fiscal and monetary austerity even if results with lower GDP growth, slower inflation and always a reduction in imports; an exchange rate adjustment through devaluation (Taylor, 1997)

Balassa after defining the role of structural adjustment as responses to external shocks such as rising of oil prices or world economic recession and to internal shocks as a result of governments excessive expansionary monetary politics defines structural as such: *"The expression 'structural' in the definition reflects the need for a discrete , as compared to marginal, changes in policies in response to discrete shocks. Responding to these shocks will also necessitate a reordering of priorities as well as a reconsideration of policy instruments."* (1982:23) As Balassa highlights, a reordering of priorities reflects the restoration of class power and also as a result, inevitable transformation in the accumulation strategy which reflects the change from Keynesianism to Monetarism under the guidance of IMF and The World Bank policies.

Kahn and Frenkel points out that the IMF's primary mission is the balance of payment disequilibrium, but not just that. IMF at the same time, assist its member countries in order to yield balance of payments viability, price stability and a growth rate that is enough to foster a steady improvement in living standards. Acknowledging that the policy measures differ from country to country, they define the common feature of the packages as, *"the emphasis place on the role of the market and relative prices in the expansion and allocation of resources."* (1993:87)

The prescriptions imposed on the Third World have been prescriptions for the continued insertion of those societies in the global accumulation of capital, dictated by the movements of capital on a world scale. The governments of the First World are no less subject to those prescriptions than are the governments of the Third World, but those countries lie at the heart of the global accumulation of capital, so their governments command enormous resources and play a decisive role in channeling global movements of capital. Nevertheless, the governments of the United States, the United Kingdom, Japan and the European Union are constrained by the need to maintain the stability of their currencies and the solvency of their national finances just as much as are governments of the Third World.



Wealth includes housing, securities and cash, and durable consumption goods.

Graphic 6: Share of total wealth held by the 1% of the wealthiest households (%): USA (Harvey,1989)

3.5. The Neoliberal State

Capitalism is not a self regulating and self-sustaining system. On the contrary, it always sustains itself through militarism and colonialism. Keynesian state intervention is an exception for a brief period of time, when the long history of capitalism was taken into account. The ultimate aim of Keynesian state intervention ,as it was analyzed in the first part of second chapter, is the continuation of the accumulation and the reproduction of capitalist accumulation through the socialization of investment that ,for Keynes, is the main policy option to reach full employment level. As Patnaik puts it,

> *" Since colonialism and imperialism have always been sustained through military intervention by the State, one can say that capitalism, contrary to the "liberal" picture of it, has always been sustained by State intervention in its functioning. The basis of the opacity of State-society relationship then lies not in the fact of capitalism's being "self-acting" and "self- regulating", independent of the State, but in the fact that State intervention itself has usually been carried out in the name of society as a whole, rather than in the ostensible interests of the capitalist class."* (Patnaik,2006:10)

Since capital accumulation in a capitalist mode of production always need the complementary role of state and at the same time, the state in a capitalist society is equally subordinate to capital, simply providing an alternative but subordinate mode of regulation of capital accumulation, the role of neoliberal state ought to be examined on the basis of this historical fact. Since capitalism has always been sustained by the state intervention in its functioning, the question is that how the neoliberal state intervene in the functioning of the market since the Volcker Shock.

The distinctive character of the neoliberal state is the way state intervention in the organization and the circuit of capital has been reformulated. The point is not just to degrade, deconstruct, or drawing back of the state at the expense of market as liberals puts forward in theory, the space of the state in the economy, but the new role that is adhered to state with regards to the valorization of capital and the class struggle. Restrictive budgetary and debt management policies that inevitably curb the social requirements of the state have damaged social equality and has gave impetus to social polarization within the society.

The explanations of neoliberalism, and the role of neoliberal state, has a wide range of variety. Some scholars define neoliberalism as a manifestation of the domination of capital (both on national and international level) capital. *(Epstein and Gintis,1992)* Others consider it as a domination of finance capital over productive ,industrial capital.(Patnaik, 2006) .The consideration of organization of capitalism as if there is a clear cut separation between finance capital and the industrial capital is a misconception. It is not plausible to consider General Electrics, General Finance and General Motors as existing separate companies. Neoliberal state is an agent in the restoration of class power, but not just the finance capital.

The transition from Keynesian interventionist state acting as a spender, an investor and as a producer to night-watchman state of neoliberalism favoring privatization and disinvestment has mistakenly labeled as "the retreat of the state". Keynesian state, relatively to neoliberal state, acts as a supranational entity that not just favors the interest of some groups in the society, but favors society as a whole. However, neoliberal state acts as an apparatus of the bourgeoisie class. In order to hide its part and continue to the functional accumulation of capital, neoliberal state needs social legitimacy.(Patnaik, 2006)

In the new flexible regime of accumulation, the collective rights of workers, or other social movements are curbed and are suppressed through forceful actions of police when it is necessary. For example, TEKEL Workers who were sacked after the privatization of their factories who are now to be transferred to low-wage jobs in the public sector without any job security, were objected to direct violence of police force (using tear gas, pressured water and clubs)in Turkey in their fourth day of resistance. The neoliberal state is presented as class neutral, however when there is a conflict, as the executer of the policies including the commodification of nature and labor, does not hesitate to favor the financial system and the solvency of financial institutions at the expense of the well-being of the population or environment.(Harvey,2005)

3.5.1. The Functioning of Neoliberal State

The neoliberal state, even if it is tried to be indicated as a class neutral that favors the interest of all population, openly cares for capital at the expense of labor with its economic policies based on privatization, deregulation, financialization, fictitious commodification of land, money and labor power. The main function of neoliberalism as an accumulation strategy is to secure the general external conditions for capital accumulation that are a legal rational order and the rights of property.

3.5.2.Washington Consensus

For the discussions of the role of neoliberal state, Washington Consensus is at the core. Williamson originally coined the phrase in 1989 "to refer to the lowest common denominator of policy advice being addressed by the Washington-based institutions to Latin American countries as of 1989." (2004) Williamson describe Washington Consensus as *" a response to a leading role for the state in initiating industrialization and import substitution. The Washington Consensus said that this era was over."*(Williamson,1990) These policies were:

- Fiscal discipline
- A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure
- Tax reform (to lower marginal rates and broaden the tax base)
- Interest rate liberalization
- A competitive exchange rate
- Trade liberalization
- Liberalization of inflows of foreign direct investment
- Privatization
- Deregulation (to abolish barriers to entry and exit)
- Secure property rights

The Washington Consensus was a policy agenda driven by the interests of capital, most of which are in the developed world. The underpinning of this agenda was the standard theory of free trade (Shaikh,), which promises benefits to all and a fast track to development for the poorer countries.

Analytical, historical and empirical grounds indicates that the standard theory of free trade is completely wrong. The standard theory says that free trade will make all countries equally competitive, because the automatic functioning of competitive markets will lead each country to a position of balanced trade in which each nation supposedly attends to its own comparative advantage in the world market. Full employment in all countries is typically assumed in this discourse. The First World countries have always known this doctrine was false, and have always acted in precisely the opposite manner from what they now preach: they protected key industries, prevented deleterious competition from abroad, and generally intervened to further the interests of their own businesses. Ha-Joon Chang's little book *Kicking Away The Ladder* makes the historical record abundantly clear. Yet the mythology of free trade persists because it serves the interest of the powerful capitals of the world.

International trade is undertaken by businesses, not nations. And businesses are driven by the profit motive, not some abstract "national interest". Exporters and importers operate in the world market, each seeking to do what is most profitable for them. It is out of these myriad decisions of individual businesses that the pattern of trade between nations emerges. This is competition on the world market, and like competition within a country, it is regulated first and foremost by the cost advantages of the producers involved. Those whose unit costs are low will have a higher probability of success in the market than those with higher costs (there are no guarantees). This holds as much in international competition as it does in national competition: the strong win out over the weak. Subsidies, tariffs, and various other favours and advantages will of course help local capitals, but only relative to what the market would otherwise dispose. A country which is opened up to international competition without being first prepared to compete effectively will be forced to offer up its natural resources and cheap labour. This is precisely why the advanced countries rejected unrestricted international competition when they were themselves developing, and why they embrace it wholeheartedly now.

Washington Consensus that in theory has aimed to pursue macroeconomic stability by firstly controlling inflation and reducing fiscal deficits, secondly, to open national economies to the rest of the world through trade and financial liberalization, and lastly, to liberalize domestic product and factor markets through privatization and deregulation. Deregulation seems to most of the people as the emancipation of factors of production from old restrictions over them. Just the opposite, deregulation brings a new set of rules that replaced previous rules. Therefore, it should be understood as re-regulation that undermines older rules and put forward new set of rules, instead. It is obvious that what Washington consensus paved way is the shift from a state –led economy under national autonomy in many senses to a market oriented international economy. Moreover, and also more important transition is in the structure developments problems were framed.

What led Washington Consensus to emerge as most important alternative to national developmentalism is the failure of import substitution strategies in underdeveloped countries and the success of East Asian countries as developing countries. It has brought commitment to free market, private property and individual incentives and also the most important characteristics for developed countries that had been successful in the Golden Age of capitalism, is the circumscribed role for the state. That is the laize faire liberalism entailing liberalization of both external and domestic economic relations. At the same time, some principles were excluded for the sake of creating strong economies such as constructing national unity and realizing national sovereignty. Policies which are conflicting with new international economic liberal order, including protection of infant industries, managed interest rates and selective credits were curbed because of their impacts as obstacles to enlargement and integration of capital to the underdeveloped countries and restrict the accumulation of global capital.

New economic order has brought new adjustments that abandon grand long-term government-directed designs for whole societies to decentralized decision-making, laissez Faire and local social engineering.

In short, the policies of macroeconomic discipline, a market economy and openness to world has praised and policies including inflation, state-led growth and import-substitution were left behind and has became unfashionable.

3.5.3. Financialization

Financialisation refers to the profound transformation that has taken place in global capitalism since the mid-1970s. To be specific, profitability in real accumulation has not recovered its early post-war levels, productivity growth has been weak, and average

GDP growth rates have declined with every decade. During the same period neoliberalism became dominant and led to deregulation of labour and financial markets.

First, large monopolistic enterprises have come increasingly to rely on their own funds to finance investment. If they need to borrow, they typically go to open financial markets. At the same time, they have acquired capacity to generate financial profits by operating in financial markets.

Second, faced with declining profit opportunities from lending to big business, banks have turned to open markets. They have acquired investment banking functions, earning profits through fees, commissions, trading and market-making. Banks have also turned toward workers' income as a field of profit through individual lending and management of workers' savings that has allowed banks to make profits directly out of workers' wages and salaries. This is financial expropriation, a form of secondary exploitation that takes place in circulation.

Third, workers have been forced into financial expropriation because of gradual retreat of public provision in housing, education, health and so on. They have been further forced to rely on banks as real wages have been more or less stagnant for three decades now. Thus, workers' incomes have become financialised as debt has increased and as financial assets have ended up with pension funds and the like. The result has been the accrual of large parts of workers' incomes as bank profits.

The crisis that broke out in 2007 is the result of the tensions and contradictions inherent to financialisation. It is a deep, structural crisis that began in the financial sector and then engulfed the rest of the economy.

A huge housing bubble was created in the USA and the UK after 2001 as interest rates were low and banks turned toward ever poorer layers of workers for lending. Banks then used their investment banking functions to market mortgage debts thus making further profits from trading. Speculation reached unprecedented heights. But in the end much of this structure of debt rested on the ability of workers to repay their mortgages. This has been constrained by stagnant, or even falling, real wages in the USA.

The inevitable result was a gigantic collapse of credit. Consequently demand fell and bankruptcies began to rise. The credit crisis became a recession, that is, it involved the economy as a whole. This led to a collapse of exports which affecting both developed and developing countries. Global capital flows were also reversed, hitting poorer countries hard. The crisis thus became a major global upheaval.

Everyday $3 trillion flows across the world's foreign exchange markets .that is why it is claimed by liberals that no government, even the most powerful, has the resources to resist speculation against its currency and thereby the credibility of its economic policy. On the contrary, this is a myth. Malaysia proved otherwise as early as 1998. China is another example. This myth assumes the presence of free markets and non intervention by the government. When the governments intervene, such as by removing the convertibility or decide to apply a fixed exchange rates policy. Speculators became powerless. It is matter of politics rather than economics. In the presence of such a flow, it is really difficult to control capital and this difficulty diminishes the role of state even in their own territories. After 1970s, with the end of fordism, financial liberalization has used as a tool for overcoming the crisis through switching crises and the accumulation by dispossession.The financial instruments have been invented such as treasury bonds, assets. Nowadays, free mobility of capital is labeled and propogated as an obstacle for an independent, self-sustaining growth and make countries more dependent to each other with the increasing interconnectedness among them and also politically, it is a nice tool that keep developing countries under pressure. This lack of ability to have full control over domestic economy is a direct result of policies of globalization that enforces countries in order to adopt free trade policies, diminishing control over financial flows.

The basic disadvantage of free mobility of capital is that it prevents countries from achieving a self-sustaining growth As a result of financial liberalization and also the increased interconnectedness, it becomes difficult to pursue an economic policy independent from short-term foreign investment, in other words hot money, especially in developing countries such as Turkey. East Asian economic crisis clearly indicates than how difficult the self-sustaining growth is. Before financial liberalization in Asian countries, East Asian countries, especially Korea achieved an economic growth with a strict state policy that protect import and promote export, keep the interest rates low or negative and apply competitive devaluations policies.

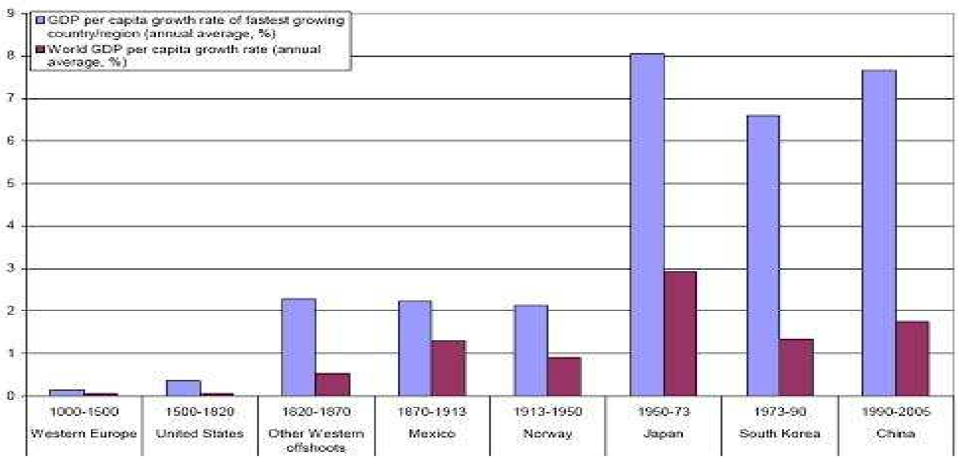
3.5.4. Neoliberalism and the Results of Globalization

Some scholars like Dollar and Kraay see globalization as a benign force that lead all the societies to the development.(2002) Western countries impose their values for the sake of the idea that every country benefit if they shape their economic and social systems according to western norms such as democracy, liberalism, free market etc… and encourages developing countries to globalize their economies by opening up it, reducing tariff rates, attracting foreign capital .However, globalization presents different faces to different people. He emphasizes dichotomy between the poor nations and the rich nations. Some optimistic scholars claim that through globalization, poor nation can catch up with the rich nations .Dependency theories, on the other hand, states that especially, in 21th century globalization is the expansion of Western system worldwide and is a tool for exploitation of developing countries under the name of increasing interdependency. Which of these ideas reflects the reality? To answer this question, it is better to answer another question whether Capitalism erode the previous modes of productions, as Marx argues or it affects and reconstructs previous mode of productions due to international division of labor. According to Marx, capitalism has destroyed pre-capitalist mode of productions and erode all conservative values and relations in the superstructure. He also appreciates British economic activities in China because of devastating old economic, feudal relationships in China. However, Laclau states that capitalism do not totally terminate pre-capitalist mode of production, and on the contrary capitalism articulate itself to these modes of production and reconstructs regularly to perpetuate international division of labor and to keep third world countries as suppliers of primary products.(1971) When we look at from this perspective, globalization is a practical agent of capitalism to maintain unequal exchange relationships and unfair integration of developing countries to the international division of labor.

Globalization can be defined also as a tool for exploitation because of two basic roles of transnational companies (TNC). Firstly, % 70-%80 of benefit goes to parent country by the transnational companies and the rest remains in the host country. This repatriation of huge amount of benefit clearly indicates how host countries are exploited. Another reason is the violation of rights of labor in developing countries. Western companies that are not able to violate the rights of labors in developed countries can exploit people by giving them subsistence wage in order to create surplus value in underdeveloped countries.(Baylis&Smith, 2003)

Chang quotes a devastating passage from Friedrich List, the 19th century German economist: "It is a very clever common device that when anyone has attained the summit of greatness, he kicks away the ladder by which he has climbed up, in order to deprive others of the means of climbing up after him ... Any nation which by means of protective duties and restrictions on navigation has raised her manufacturing power and her navigation to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than to throw away these ladders of her greatness, to preach to other nations the benefits of free trade, and to declare in penitent tones that she has hitherto wandered in the paths of error, and has now for the first time succeeded in discovering the truth." Chang states that all developed countries reach development through protectionist policies such as tariffs and neoliberal discourse that encourage developing countries to imply policies including free trade, free movements of labor and capital accelerating through globalization for the sake of reaching global prosperity is misleading.

The graphic below clearly refutes the validity of neoliberal policies in hope for reaching development. Between 1950 and 1970, when policies restrict financial flows, countries reach high amounts of development rather than the period between 1973 and 2005, when restrictions on financial flows has diminished. Opening up your economy to foreign speculative financial capital would not be beneficial for recipient country, but inevitably beneficial for holders of “hot money” and exploitation of domestic resources. Champions of development between 1950-1970 and 1973-1990 are Japan and South Korea, which have direct control over their economies, especially Korea achieved an economic growth with an interventionist state policy that protect import and promote export, keep the interest rates low or negative and apply competitive devaluations policies.



Graphic 7: Historical experience with growth

3.5.6. The Contradictions of Fordist Regime of Accumulation

The contradiction of Fordist regime of accumulation was its compromise as particular phase of capitalist development based on investments in fixed capital that create an increase in mass production and mass consumption. At the same time, Fordism is based on social contract of business, big labor and the state. David Harvey states that "On the surface, these difficulties (difficulties of Fordism) could best be captured by one word: rigidity" This is what Marx call as the nightmare.

Harvey defines the rigidity as the keyword that defines best the Fordist regime of accumulation, a particular phase of capitalist development based on investments in fixed capital that create an increase in mass production and mass consumption. At the same time, Fordism is based on social contract of business, big labor and the state.

Harvey defines clearly the role of state in the Fordist regime of accumulation to curb overaccumulation crises by making big investments to absorb surplus. He states that *"…strove to curb business cycles through an appropriate mix of fiscal and monetary policies. Such policies were directed towards those areas of public investment--in sectors like transportation, public utilities, etc.--that were vital to the growth of both mass production and mass consumption, and which would also guarantee relatively full employment. Governments likewise moved to provide a strong underpinning to the social wage through expenditures covering social security, health care, education, housing, and the like"* (Harvey, 1989: 135)

It is necessary to realize profit-oriented characteristic of capitalism so as to elaborate on organic connections between capitalism and the new flexible regime that reformulate and reregulate the role of state in the economy and it is better to start with Marx. In his Capital, he makes an illuminating distinction between money that is money only and money that is capital. Difference between them is just based on their form of circulation. C-M-C depicts the transformation of commodity into money and later, the change of money into commodity. In this formula, people sell commodity in order to make money to buy another good which has an exchange value. Money is just used as a medium of exchange; no material gain in terms of money is expected at the beginning of circulation.

In this circulation, money that is money only takes part. However, Marx makes another formulation (M-C-M') in order to show the logic of money that is capital. This formulation depicts transformation of money to commodity and later, transformation of this commodity into money. Contrary to money that is not capital, money that is capital is used in order to make more money, what Marx call "surplus value". At the end of circulation, it seems that the circle turns to the beginning, but this is an illusion, because the new situation is like that M-C-M'. Marx gave a merchant who buys 2000 Ibs of cotton for ₤100 and sells same amount of cotton to ₤110 as an example. ₤110= ₤100+₤10. ₤10 is the surplus value, and he adds that capitalist who makes ₤110 out of ₤100 does not pay money, but he just put it into circulation again in order to advance it. Another point is that this merchant should also put ₤110 into circulation in order to keep it in the form of capital. Otherwise, it becomes worthless.(Marx,1962)

According to Arrighi, this conceptualization of Marx shows that money capital means liquidity, flexibility and freedom of choice. Commodity capital means an investment to a particular input-output combination for the sake of profit. This investment creates rigidity and brings restriction to freedom of choice that is very crucial for capitalists. Capitalists are likely to invest to a particular output-input combination as not an end to itself, but as a means to be a basis on further flexibility.(1994) Then, why is this tendency of capitalist class is important? What are impacts of these tendencies on the formation of neoliberalism?

For Marx, mobility of capital is important in the sense that it would bring an end to capitalism. He formulizes the tendency of profit rate to fall. According to him, increased investment and growth in constant capital, including factories, machines, land, buildings, raw materials relative to variable capital lead to a reduction in the margin of surplus value. Since Rate of Profit is equal to ratio of surplus value to the sum of constant and variable capital, rise in constant capital generates reduction in the rate of profit. Even if investments in constant capital increase productivity, it reduces profits. The more capitalist try to increase productivity, the more the profit falls. It turns into a vicious cycle.

Marx justify his theory with these calculations with a given surplus value of ₤100

If c = 50, and v = 100, then p' = 100/150 = 66⅔%; c = 100, and v = 100, then p' = 100/200 = 50%; c = 200, and v = 100, then p' = 100/300 = 33⅓%; c = 300, and v = 100, then p' = 100/400 = 25%; c = 400, and v = 100, then p' = 100/500 = 20%.

As it is clearly indicated, a rise in constant variable inevitably lead to a reduction in profit rate when variable capital is constant. Marx claims that capitalism would come to a halt as a result of this scenario.(1962)

What Marx was not able to estimate and guess is financial liberalization. In other words, flexible accumulation which brings an end to Fordist regime of accumulation, a particular phase of capitalist development based on investments in fixed capital that create an increase in mass production and mass consumption. At the same time, Fordism is based on social contract of business, big labor and the state. This rigidity was what Marx call as the nightmare of capitalism.

The rigidity that had brought the big labor, big government and big capital as a dysfunctional compromise and the rigidities and the restrictions that has applied to the international finance under Bretton Woods system that was established after WWII in order to bring peace, prosperity and order to the world has inevitably come to a stop. The most distinctive characteristic of Bretton Woods system is that it impose limitations on financial flows while it aims to increase interdependence through rising trade and production. Multilateralism shape regimes of trade and production. It was believed that increasing interdependence contribute to the abandonment of wars and disorder. For this reason, freedom of movements of good by reducing custom duties and barriers to trade and promotion of movement of capital in the form of foreign direct investment were promoted by new Bretton Woods institutions such as IMF and World Bank .One of the major impacts brought about by such free trade, is the weakening of the nation state Decolonization period gave impetus to the attempts to integrate newly independent countries into the world system. Fixed exchange rate regime was adopted in order to prevent a crises emanating from speculative financial flows. 1$ is fixed to 35 ounce gold and dollar started to be used as a medium of exchange. As a result, reconstruction of world market under US hegemony supported by US containment policy on a limited geography, excluding communist countries in the East had succeeded.

3.6.1. Tendency of Surplus to Rise

If we turn back to Marx conceptualization of tendency of profit rate to fall, Baran and Sweezy's Monopoly Capital (1966)**,** argued that Marx's "law of the tendency of the rate of profit to fall" was no longer directly applicable to the monopoly capitalist economy that emerged at the beginning of the twentieth century, and had to be replaced by a "law of the tendency of surplus to rise". The problem is not the reduction of profit, but on the contrary, the absorption of rising surplus. In Capitalist mode of production, what happen to that surplus then? Baran and Sweezy, after analyzing "law of rising surplus" operating under monopoly capitalism, state that surplus can be absorbed in three ways. First way is that it can be consumed, secondly it can be invested or lastly, it can be wasted. First solution is consumption, but this solution is restricted by the national distribution of income. Another one is foreign direct investment; however, foreign investment has become an efficient device for the transfer of surplus from the periphery to the core of the capitalist system, thereby further compounding the problem. Solution to a particular absorption of surplus turn into another crisis because of the repatriation of huge amount of surplus back to core states. The lack of ability of monopoly capital to find outlets to rising surplus lead to inevitably to stagnation .

David Harvey, after acknowledging the chronic tendency of capital to accumulate over and above what can be reinvested profitably in the production and exchange of commodities, put forward a specific solution "spatio-temporal fixes". This concept has two meanings.

" A certain portion of the total capital is literally fixed in and on the land in some physical form for a relatively long period of time (depending on its economic and physical lifetime). Some social expenditure (such as public education or a health-care system) also become territorialized and rendered geographically immobile through state commitments. The spatio-temporal 'fix', on the other hand, is a metaphor for a particular kind of solution to capitalist crises through temporal deferral and geographical expansion". (2003: 115)

Harvey states that temporal deferral and geographical expansion can be used to fix overaccumulation crises. Harvey, in order to show that if surplus is not reinvested, it faces with devaluation and devastation, his argument is quite similar with Marx's argument that if £110 that is gained out of £110, is not reinvested to make more money, it would lost its spirit of being capital and would become worthless. Harvey describes this tendency as, "*The vast quantities of capital fixed in place act as a drag upon the capacity to realize a spatial fix elsewhere.... If capital does move out, then it leaves behind a trail of devastation and devaluation; the deindustrializations experienced in the heartlands of capitalism... in the 1970s and 1980s are cases in point. If capital does not or cannot move... then overaccumulated capital stands to be devalued directly through the onset of a deflationary recession or depression.* (Harvey 2003: 116) In order to overcome this kind of overaccumulation and fix capital crises, interregional volatility and the redirection of capital from one space to another through exports, foreign direct investments, financialization and accumulation by dispossession are alternative solutions. Spatial-temporal fixes become on the one hand, new investment created, on the other hand, a solution to “switching crises.” Arrighi defines accumulation by dispossession as such *“it follows that accumulation by dispossession is only in part a substitute for spatial fixes to overaccumulation crises. To an extent that increases with the development of capitalism in the states or regions facing overaccumulation problems, it involves a spatial fix of its own–a spatial fix, that is, that expands the geographical scope of the system of accumulation through the forcible or fraudulent appropriation of something for nothing, rather than through the exchange of nominally equivalent values”*(2004:531) Accumulation by dispossession is another example about who draw benefit from increasing interdependence through globalization. States, supported by capitalist who have control over finance, do not hesitate to intervene in through soft policies like FDI, short term capital flows, cultural ties or hard policies like invasion in order to create new spatial-temporal fixes. Gramsci`s hegemony theory that bourgeoise has created a hegemonic culture through which it reflects its own values as the universal values and encourage others to believe in this misrepresentation exactly explains how capitalism convinces people and works.(1971) According to Deleuze and Guattari, Capitalism has destroyed all the cultures and has reconstructed them in a capitalistic way.(1990)

At this point, capitalism’s tendency to expand its sphere of influences as a solution to overaccumulation crises and also as a solution to problem of absorbing rising surplus would easily indicate why the neoliberal turn has take place in terms of the restoration of class power and the continuation of the accumulation of capital.The problem was the rigidity in the national borders and also maybe the most importantly the restrictions on finance capital.With Bretton Woods system, state and market relations were redefined.

The role of state was reconceptualized in a liberal economy. In general, liberal economic system is based on institutional separation of state and market. Polanyi defines this situation as *"the primacy of the economic motive in Western liberal societies is based on the view of the institutional separation of society into an economic and political sphere"* (Polanyi,1957:71) In addition, contrary to mercantilist era that politics had full domination over economics ,in liberalism, economics has priority and domination over politics. State just set the rules of market and enforce these rules .Apart from this role of state, every intervention inevitably lead to disturbance of market relations. Given this separation of politics and economics, the liberal political economy is self-sustaining. In Postwar period, it is discovered that sometimes there needs to be a state intervention into economy when market failure emerge. There needs to be a compromise between private and public sector. State, either by steering the economy or increasing living standard of its citizens takes an active role in the market, but this does not mean that state-market demarcation is violated. State and market are separate, but they complement each other. This new role of state is described by Ruggie's concept "embedded liberalism" .

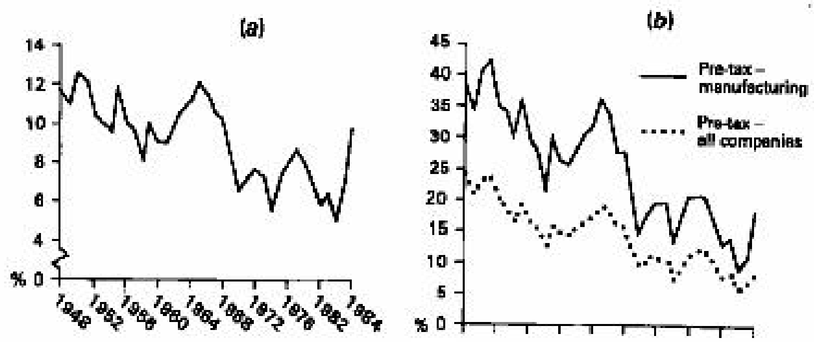
As the Graph.2 below indicates, the declines in the rate of profit and the rate of accumulation has inevitably led to the solution of the chronic tendency of Keynesian Capitalism through *"accumulation by dispossession*."(Harvey, 1989). Harvey defines accumulation by dispossession as on the one hand , the use of financial means " *"to rid the system of overaccumulation by the visitation of crises of devaluation upon vulnerable territories"* (Arrighi,2004:531) and on the other hand, the use of political and military means for the advantage of powerful states. Harvey's explanation clearly indicates what has been happening in Iraq now and what had been happened in Chile, Turkey, and most of the Latin American countries. Harvey clearly puts it,

> *"Like war in relation to diplomacy, finance capital intervention backed by state power frequently amounts to accumulation by other means. An unholy alliance between state powers and the predatory aspects of finance capital forms the cutting edge of a "vulture capitalism" that is as much about cannibalistic practices and forced devaluations as it is about achieving harmonious global development." (Harvey, 2003:135-6)*

As Arrighi clearly identifies, for Harvey ,

> *"Historically, accumulation by dispossession has taken many different forms, including the conversion of various forms of property rights (common, collective, state, etc.) into exclusive property rights; colonial, semi-colonial, neo-colonial, and imperial appropriations of assets and natural resources; and the suppression of alternatives to the capitalistic use of human and natural resources.* (2004 : 531)

So as to clearly identify the role of state in neoliberalism, "accumulation by dispossession" is one of the most important key concepts that it is going to be discussed in the neoliberal state. But primarily the historical break up with the Bretton Woods System ought to be analyzed.



Graphic 8: (a) Profit rates; (b) Percentage of national income in the USA, 1948-1984

The 1970's was a transition period. For the first time since the World War II the USA had deficits in the balance of trade. European countries and the Japan had catch up the USA and surpluses of dollars were accumulating in the rest of world and thus the threat of conversion to gold was increasing. Therefore, In August 1971, U.S. President Richard Nixon announced the "temporary" suspension of the dollar's convertibility into gold. With the end of Bretton Woods system of fixed exchange rate, and the flotation of exchanges rates in globalized financial markets, the exchange rate and also the interest rate was privatized and was taken from the hands of state agencies and officials and was given to the hands of international banks, speculative investment funds and transnational corporations. (Altvater, 2008)

In October 1979, Paul Volcker , chairman of the US Federal Reserve has engineered a shift in US monetary policy and has made a break from the commitment to the New Deal based on Keynesian monetary and fiscal policies aiming at full employment whatever the cost of it was. As it is seen in the graph below, the real rate of interest which had often been negative during double digit-inflationary surge of 1970’s, was automatically become positive by the Federal Reserve of USA. (Harvey, 2005).The interest rate in the USA was raised as high as 21 percent and the effects of it not just fel in the USA, but nearly in all developing countries. As Naomi Klein puts it,

> *“The deepest pain, however was felt outside the U.S.In developing countries carrying heavy debt loads, The Volcker Shock- also known as the “debt shock” or the “debt crisis”- was like a giant Taser gun fired from Washington , sending the developing world into convulsions. Soaring interest rates meant higher interest payments on foreign debts, and often the higher payments could only be met by taking on more loans.”* (Klein,2009:159)

3.7. Concluding Remarks

Bretton Woods system has three major elements including firstly an adjustable pegged exchange rate, secondly the foundation of IMF to help countries suffering from short-term balance of payment problems and lastly the national controls over capital flows. Post-war era was the reconceptualization of the role of the state without deviation from demarcation between the state and the market. From the mid 19th century to 1930's, laissez faire that emphasizes the autonomy of market as a distinct sphere from politics was the principle The role of the state was to set the rules and to enforce the rules. State was the "night-watchman" However, between 1945 and 1973-4; the role of state was redefined. In order to prevent market failures, state could steer the economy and also in order to deal with "have-nots", who may create a social cost for state, state could try to work for increasing the living standard of its citizens. This does not mean the end of clear distinction between the state and the market. Embedded liberalism emerged as a result of need to extra-market cordination, state was an enabling factor that contributes to capital accumulation and the market. State's new mission that is to deal with have-nots paved way to state policies called "Welfare State". Keynesian Welfare National State was the product of such an understanding for the necessity of a new compromise between labor, capital and the state in the West and Keynesianism was a policy guide for the countries in the third world that adopt import substitution strategies in order to reach development and welfare . In order to understand the neoliberal counter attack and neoliberal transformation of the state, basically in chapter 2, the thesis discusses the role of state in the post-war period which Keynesianism and the national control over finance under Bretton Woods system prevails.

In addition, the neoliberal experiment in Chile made by military junta of Pinochet under the guidance of Chicago Boys, is one of the best experiments that show the military and political making of the adaptation of market forces.

Starting in the early 1970's with the world economic recession, the post war economic boom began to collapse, marking the onset of a radical restructuring of the world capitalist system. This golden age of capitalism (1950-1970) come to a stop because of on the one hand, the current account deficit of US became unsustainable and also capital account deficit through Vietnam War was very high and on the other the loose monetary policy that was adopted to contain the momentum of postwar boom and the oil crisis following the 1973 Arab-Israeli War. The rising inflation combined with the high rates of unemployment was resulted with a stagflation crisis. However, these were not the cause of crisis , but just the breaking points .The main cause was on the falling rate of profit due to the internal contradictions of Keynesian Capitalism. The problem, in Harvey's terms, was the rigidity of the Fordist regime of accumulation that led to the falling rates of profit.(Harvey,1989)

Neoliberalism as *creative destruction* rout all the rigidities inherent to Keynesian compromise and reformulate the relationship between capital, labor and the state and the neoliberal state has emerged. The neoliberal state openly cares for capital at the expense of labor with its economic policies based on privatization, deregulation, financialization, fictitious commodification of land, money and labor power. The main function of neoliberalism as an accumulation strategy is to secure the general external conditions for capital accumulation that are a legal rational order and the rights of property under the guidance of Washington Consensus.

Washington Consensus that in theory has aimed to pursue macroeconomic stability by firstly controlling inflation and reducing fiscal deficits, secondly, to open national economies to the rest of the world through trade and capital account liberalization, and lastly, to liberalize domestic product and factor markets through privatization and deregulation. Deregulation seems most of the people as the emancipation of factors of production from old restrictions over them. Just the opposite, deregulation brings a new set of rules that replaced previous rules. Therefore, it should be understood as re-regulation that undermines older rules and put forward new set of rules, instead. It is obvious that what Washington consensus paved way is the shift from a state –led economy under national autonomy in many senses to a market oriented international economy. Moreover, and also more important transition is in the structure developments problems were framed.

CHAPTER 4

CONCLUSION

The changing modes of state intervention into the economy in neoliberalism has been addressed with reference to the theoretical conceptualization of state-market relations and the existing state-market relations especially in the Third World countries and in comparison with Keynesian Welfare National states. The questions that instigated such a study had a wide range of variety: What are the theoretical basis of neoliberalism with reference to mainstream approaches, Monetarism and Keynesianism? Before neoliberalism, in other words before 1980's, how did the relationship between state and market organized in the Post-War capitalist word order? Why does the neoliberal turn come to the scene? What are the new roles that is adhered to state in neoliberalism how does neoliberal state function ?

The first chapter has dealt with the theoretical basis of neoliberalism with reference to monetarism and Keynesianism. Before that, the thesis focuses on the political making of free market.It has been claimed that the market is a result of natural process that is suitable with the competitive human nature and also it is an inevitable result of existing harmony of interest among people .It should be noted that the thesis refutes such claims and indicate how the free market is a result of a coercive political act that was based on the commodification of land,labor and capital. Monetarism,also as a reaction to Keynesianism that was dominant from 1945 to early 1970's, propogates the autonomy of market against state. However, the actual drawing back of the state is totally a myth as the thesis indicated in the Third Chapter.

Neoliberalism becomes truly hegemonic in the sense that its particular prescription about political economy is universalized as "natural"**.** At the heart of classical economy and also today in global neoliberalism , the concept of self-regulating and self-correcting market governed by objective rules and universal laws exists and there is a natural harmony of interest that people by following their own well-being is at the same time automatically follows the interests of all. However, this explanations of liberal ideologies is a pure myth. Free market is believed to or rather is tried to make people believe as if it always exist by the groups and the ideologues whose common interest has based on it.In order to understand in depth the relationship between market and the state in general, and in particular the role of the neoliberal state in the economy, it should be kept in mind that free market is neither a natural process nor an inevitable a result of the harmony of interest.

In order to understand the relationship between market and the state in neoliberalism, there needs to be a clear cut separation between neoliberalism as a system of thought and actually existing neoliberalism. In theory, neoliberalism as a system of thought having its roots in Monetarism proposes the actual driving back role of the state, but in practice state intervention under the guidance of Washington Consensus is somehow different and the role of state is interventionist in the sense that Pierre Bourdieu's distinction between the "right and left hands of the state".

From securing the general external conditions for capital accumulation to managing the fundamental contradiction between the social nature of productive forces and the private nature of ownership, state and its role in the economy has not been deactivated in neoliberalism, instead it has been reformulated for the continuation of the accumulation of capital and such a reformulation could not be considered as dependent from the Monetarist's perception of the crisis of Keynesianism that is equal to "the crisis of State". Therefore, the main target of Monetarism is the state and the necessary transformation of state in such a way that the accumulation process that had started to decline since 1960's ought to be reversed for any social cost including even unemployment.

Second chapter was an analysis of the Bretton Woods system at the international level and at national level the identifications of formation of state-market relations of the Keynesian Welfare National States in the North and the import substitution regimes in the South.Post-war era was the reconceptualization of the role of the state without deviation from demarcation between the state and the market. From the mid 19^{th} century to 1930's, laissez faire that emphasizes the autonomy of market as a distinct sphere from politics was the principle The role of the state was to set the rules and to enforce the rules. In Polanyi's terms, state was the "night-watchman" However, between 1945 and 1973-4; the role of state was redefined. In order to prevent market failures, state could steer the economy and also in order to deal with "have-nots", who may create a social cost for state, state could try to work for increasing the living standard of its citizens. This does not mean the end of clear distinction between the state and the market.

Embedded liberalism emerged as a result of need to extra-market cordination, state was an enabling factor that contributes to capital accumulation and the market. State's new mission that is to deal with have-nots paved way to state policies called "Welfare State". 1929 Great Depression and the two world wars indicated that in a free market economy that clearly demarcates market from state had difficulties to control unemployment and economic security, the philosophy was shifted from a self-sufficient, self-regulated understanding of market to understanding of market as an unregulated, unfettered sphere. Therefore, it was necessary to organize a new compromise between capital, labor and state so as to minimize the economic risks. Workers should be paid enough income to keep demand high. It is a fact that wage earners are at the same time possible consumers. Under the guidance of theory of Keynes focusing on full employment and demand management, states considered to reorganize and to reformulate the relationship between labor, capital for the sake of preventing economic crises.

Third Chapter is an attempt explaining the contradictions of Fordist mode of production and at the same time, the contradictions of state-market relations in which the huge state expenditures and a state acting as producer, consumer and investor reduce both geographically and also economically though national control over finance capital the profitability of private sector. But the thesis indicates that the drawing back role of state is a myth. The distinctive character of the neoliberal state is the way state economic intervention in the organization and the circuit of capital has been reformulated. The point is not just to degrade, deconstruct, or drawing back of the state at the expense of market as liberals puts forward, the space of the state in the economy, but the new role that is adhered to state with regards to the valorization of capital and the class struggle. Restrictive budgetary and debt management policies that inevitably curb the social requirements of the state have damaged social equality and has gave impetus to social polarization within the society.

At the beginning of 2007 Global Economic Crises after the bankruptcy of Lehman Brothers,and following the rescue and bailout plans of government including USA,UK etc.,the dominant debate was about whether it is the end of neoliberalism or not. However, it is again proved by the history that the central issue for capital is whether capitalism can overcome the current global crisis without a fundamental reordering of the global capitalist system and, if not, whether such a reordering can be achieved without degenerating into military conflict. For a brief period during 2008 there were hopes that an alternative set of economic policies might be possible. Unfortunately this has not turned out to be the case. On the contrary, governments have intervened in order to rescue the financial system while making sure that all the fundamentals of financialisation continue unchanged. The Obama administration must take a large part of the blame for this, as must Gordon Brown in the UK. All the talk about re-regulation is precisely this – talk. Banks are not worried about re-regulation because they know that they will be in control of whatever changes are made.

However, as the recession gets deeper and the underlying problems of financialisation manifest themselves, it is possible that a break in policy making will take place. The USA and the UK are heading towards stagnation These societies cannot easily tolerate stagnation with the attendant high unemployment rates, poverty, crime, and so on. It might be that significant changes in economic policy will take place as result, perhaps dealing a blow to neoliberal formulation of state-market relations.

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