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Interpreting Emerging Finance Capitalism in Turkey

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Interpreting Emerging Finance Capitalism in Turkey

Turkey has been touted as one of the great ‘emerging market’ success stories. As the advanced capitalisms like the US and UK sunk into the Great Recession, Turkey pulled out of crisis earning the moniker of a key ‘growth market’ in 2011 by Jim O’Neill, the chair of Goldman Sachs Asset Management who originated the term ‘BRIC’. Over the last decade Turkey’s GDP per capita has skyrocketed from about \$8500 to about \$14 000 as annual growth stayed in the range of 6-8 per cent. Yet such broad indicators often obscure underlying and growing inequality of income and power among social classes. The OECD ranks Turkey dead last in its social justice indicator. Inequality has increased faster in Turkey than in almost all other OECD member states. Turkey also has the lowest employment rate among member states at 44.3 per cent. While GDP growth appears rosy the average Turk made 21 per cent less on average in 2009 than in 2005.¹ By contrast the banks in Turkey have made record profits year after year, averaging more than double that in most other OECD countries. The balance of power between labour and capital has never been more imbalanced in favour of finance.

The analytical thread linking these seemingly disparate facts is that Turkish leadership and domestic elites remain firmly committed to a neoliberal and finance-led strategy of development. The neoliberal element is premised on the defeat and on-going repression of organized labour’s capacity to resist market-oriented structural adjustment alongside the intensification of profit and labour productivity imperatives since the 1980s. The finance-led element involves Turkish state and government elites developing new institutional capacity to absorb, socialize, and manage the accumulation of risks of foreign and domestic financial capital at times of crisis.² This solidified in the post-2001 banking crisis and recovery period under the ruling AKP as *emerging finance capitalism* (EFC).³ In *States, Banks and Crisis: Emerging Finance Capitalism in Mexico and Turkey* I define EFC as “the fusion of the interests of domestic and foreign financial capital in the state apparatus as the institutionalized priorities and overarching social logic guiding the actions of state managers and government elites, often to the detriment of labour.” EFC as the current phase of capital accumulation is distinctive but not distinct from the three decades of finance-led neoliberal transformation processes leading up to it. I want to focus here on the book’s historical materialist analytical framework, which I frame argument around four premises: (1) states as social relations; (2) banks as social relations; (3) crises as constitutive of EFC; and (4) labour is vital to the nature of EFC. I’ll explore these premises in turn with illustrative examples drawn from Turkey.

¹ OECD (2011), *Social Justice in the OECD – How Do the Member States Compare? Sustainable Governance Indicators 2011*, Paris; OECD (2011), *Society at a Glance – OECD Social Indicators*, available at www.oecd.org/els/social/indicators/SAG; OECD Stat.

² Marois, Thomas (2011), ‘Emerging market bank rescues in an era of finance-led neoliberalism: A comparison of Mexico and Turkey.’ *Review of International Political Economy*, 18 (2). pp. 168-196.

³ The remainder of this article is drawn from my book published in 2012 titled *States, Banks and Crisis: Emerging Finance Capitalism in Mexico and Turkey*, Cheltenham, Gloucestershire, UK: Edward Elgar Publishing. The book is in the process of being translated and published in Turkish by Notebene Publishing (<http://www.notabeneyayinlari.com>).

Premise one: States are social relations

That states are class-based social relations is a historically grounded on analytical premise of political Marxist thought, particularly Poulantzian. This way of thinking also sees each phase of capitalism as crystallized in the form of given states. Seeing the Turkish state in these terms is important for the overall interpretation of EFC because it allows for non-deterministic analysis insofar as the form of state results from historically specific collective social and class struggles undertaken within the wider context of capitalist world market and associated competitive imperatives. The state is neither a timeless black box of competing individuals, as in liberal thought, nor simply the executive committee of the bourgeoisie, as in more orthodox Marxian accounts. Rather there is an understanding of struggle-induced change built into the notion of 'state' that varies historically according to different institutionalizations of power. This too opens the way for conceptualizing alternatives to EFC without the resorting to the trope of 'smashing' of the state.

What are some examples of the institutionalization of EFC in the Turkish state? The opening of the Saving Deposit Insurance Fund (TMSF) in 1983 following the 1982 Kastelli financial crisis demonstrated a new commitment to protecting financial stability in Turkey. Through the 1980s neoliberal restructuring relied on currency depreciation, export subsidies, and wage suppression but this proved insufficient to ensure growth by 1988. Elites responded by pushing financial liberalization as a means of ensuring continued market-oriented restructuring, which led to capital account liberalization in 1989. This sparked a period of bank centralization and concentration along with heightened financial stability that soon culminated in the 1994 financial crisis and IMF-crafted stabilization package. Instability persisted which the 1999 Disinflation Program was meant to resolve. One aspect involved creating the Banking Regulation and Supervision Agency (BDDK) in June 1999. As is well known, the 1999 Program worsened matters and the BDDK took on the role of crisis manager by 2000-01 under the Banking Sector Restructuring Program. The 2001 crisis was significant insofar as it led to Central Bank independence, a proliferation of cross border financial supervisory agreements, the increasing centralization of domestic financial authority around the Treasury, and the massive build up foreign reserves to ward off foreign capital fears. The AKP has privileged state financial capacity since then often couched in terms of European Union harmonization.

The details are of course more extensive. However the point is that far from the neoliberal idealizations and discourses of a minimal state the post 1980s turn to market-oriented capital accumulation in Turkey was constituted by a process of state restructuring to bolster state financial capacity building. Given the rich tradition of critical state analysis in Turkey, this is not necessarily a controversial premise.

Premise two: Banks, too, are social relations

Unlike in Marxian state theory the premise that banks, too, are social relations is something relatively novel to Marxian research on banking and development (if not necessarily alien to historical materialist thought). Yet so too does this premise involve unpacking banks' historically specific institutionalized operations relative to the wider phase of development in Turkey. This occurs on at least two levels of conceptualization. At the level of Turkey's banking system and domestic market, this first means thinking about the material foundations of the banks and the credit system as based on drawing together many people's money savings for use by a few in order to overcome the barriers that individual private property poses for capitalist production.⁴ That is, there is an essentially social and class foundation to banking operations rooted in the exploitative processes of capital accumulation. At the level of Turkey's banking institutions, this then means also seeing how the banks are social relations at the institutional level. That is, banks too are historically specific institutionalizations of power within given social formations. This conceptualization applies to all banks regardless of ownership categories (be it foreign, domestic, state, or mixed ownership). Posing banking institutions as historically constituted by social relations challenges mainstream empiricist understandings that dominate the literature on banks. Far from presupposing a bank's operations as determined by ownership, this premise demands an investigation of the banks' practices and procedures of the banks. Most Marxian accounts unfortunately mirror liberal a priori interpretations of bank ownership. Yet there is something more genuinely historical materialist to an analytical practice of historicizing the banks in Turkey.

Thinking of banks as institutionalized social relations of class power (embedded in wider capitalist social relations of production) allows you to think quite differently about Turkey's developmental history and the role of banks therein. I find that perhaps the most interesting and unique example of this rethinking involves the Turkish state-owned banks. The Turkish state banks were key agents of Turkey's post-war capitalist industrialization strategies. The Turkish government configured the banks' operations to help overcome barriers to national capital formation and accumulation via central government supported 'duty losses'. In this period the state banks coexisted alongside large private domestic and some foreign banks in Turkey, but they had a distinctive developmental operational logic not subordinated to profit maximization. The transition to neoliberalism in Turkey began to change matters. Under the unstable and increasingly indebted governments of Çiller, Yılmaz, and Erbakan during the mid- to late-1990s the post-war developmental duty losses evolved into distinctively *neoliberal* duty losses. That is, by the time the 2001 banking crisis struck these governments had hidden away \$20 billion in the state banks in cheap credits. During the same period state authorities had forced a number of failed private banks into the state-owned banks. Both measures helped ensure continuity in Turkey unstable neoliberal transformation

⁴ Hilferding, Rudolf (2006 [1910]), *Finance Capital: A Study in the Latest Phase of Capitalist Development*, ed. with an introduction by Tom Bottomore, trans. Morris Watnick and Sam Gordon, London: Routledge

and in doing so, paradoxically, helped to politically protect the state banks from IMF privatization demands.

The subsequent 2001 banking crisis and 2001 Banking Sector Restructuring Program provided an opportunity for neoliberal advocates to push through with severe market-oriented reforms to commercialize the state banks' operations by institutionalizing profit and labour productivity imperatives. One result, for example, is that Ziraat Bank has become Turkey's most profitable bank since 2003 and even the 9th most profitable bank in the world in 2010 (of course, within a context of collapsed global banking profits).⁵ Ziraat's post-war developmental mission, however, has made its way into the dustbin of Turkey's developmental strategies. The point to be drawn from this brief example is that banks, including state banks, are historical social relations and can be institutionally restructured given political will. Not only does this allow a richer historical account but so too does this conceptualization leave open radical possibilities for alternatives to EFC. Progressive and worker-oriented forms of saving and credit institutions are required for any break in neoliberalism to occur. In Turkey today Vakıflar Bank and Halk Bank remain predominantly state-owned while Ziraat Bank, the largest, remains fully state-owned. Together they constitute about 30 per cent of all banking assets. Here more than perhaps in any other emerging capitalism the banks' future is yet open to an alternative trajectory should organized labour and political will organize around it.

Premise three: Crises are constitutive of emerging finance capitalism

That moment of crisis matter, in ways not dissimilar to historical institutionalist critical junctures, is a standard Marxian premise. This point need only be made in brief. At issue is the idea that crises are internal to capitalist social relations of production and competition insofar as crises constitute an internal disruption. As such, crises provide an opening for change without determining the nature of such change should it occur. The nature of change, while impacted by economic and social circumstances, is shaped by prevailing political factors, social forces, and class struggles. In Turkey, far from slowing or reversing finance-led neoliberalism, the processes of crisis and recovery has been captured (meaning predominantly shaped) by advocates of market-oriented capitalism since the 1980s. This occurred quite nakedly in 2001 under the technocratic leadership of Kemal Derviş. Discussed below, the state-led rescue was premised upon the bulk of Turkish society socializing the accumulated financial risks gone bad through the state apparatus.

It is important to say that the resolution of financial crises have never been merely technical, politically neutral, or classless. Rather, Turkey's crisis resolution processes have systematically reinforced and strengthened the power and position of financial capital in the

⁵ Alexander, Philip, 'EM banks most profitable – but vulnerable on deposit bases' 04 July 2011, *The Banker*, downloaded 04 July 2011. Of course, this is equally a reflection of massive losses among the global banking giants.

Turkish state and society. As suggested at the outset, this has involved restructuring the state and building institutional capacity to manage recurrent financial crisis. This comes at a social cost that is borne disproportionately by the majority of Turkish society that did not cause the crises.

Premise four: Labour is vital to emerging finance capitalism

Like the banks above, integrating labour into an analysis of finance and development in emerging capitalism is something distinct. Yet the question of labour could not be more significant to the rise of neoliberalism and the consolidation of EFC in Turkey. This builds on a basic Marxian premise that labour is vital to the material reproduction of capitalism – and by extension finance capitalism – in Turkey. Labour and workers are, nonetheless, generally ignored in analyses of banking, finance, and development – be it Marxian or otherwise. My particular interpretation draws on Hilferding and, again, works across two interrelated analytical levels, that of society and the banking institutions. In what follows I highlight three ways in which labour and workers are vital to understanding emerging finance capitalism in Turkey.

The first point is foundational. Namely, it is important to point out, as Hilferding does, that labour creates value in production from which financial capital earns interest. Again, this is a well-established Marxian premise rooted in a labour theory of value. The flip side of this interpretation is the somewhat obvious yet significant fact that finance produces nothing but appropriates value from the wealth-creating labouring classes.

The second and more unique point is that labour is directly implicated in financial crisis resolution. This is an area where I have been doing more research of late and where further research is required. The key is that workers' labour in general provides the base income tax revenue upon which the state apparatus can socialize or draw in financial risks at times of crisis. For example, Turkey's 2001 banking crisis and state-led rescue is understood as an important turning point in Turkey subsequent growth and resilience to the current Great Recession. Yet Turkey's success as a 'growth market' depended primarily on state and government elites socializing \$47.2 billion or just over 30 per cent of 2002 GDP in financial risks gone bad. That Turkish taxpayers shoulder the costs of financial crisis and resolution is not disputed regardless of one's analytical traditions. Neither is socialization much theorized, subjected to an understanding of power relations, nor used to interpret the current phase of development. The socialized costs are instead taken as an unfortunate if necessary fact.

How Turkish state and government elites transfer the costs of crisis onto Turkish taxpayers reveals the essential role played by labour. The basic mechanism involves creating fictitious capital: that is, 'promises to pay' made up of capitalized claims on future state revenue. How is fictitious capital created in practice and on what material basis? The institutional capacity of any state apparatus to reproduce itself and for state authorities to act depends on revenue generation, which authorities can do in three ways. First, creating new state-owned enterprises or increase SOE (State-Owned Enterprise) productivity to produce

surpluses can generate revenue. As we know under neoliberalism and particularly under AKP rule SOEs have typically been sold off for one-time revenues with no new SOEs being created. Many SOEs have been ‘commercialized, however, with Ziraat Bank restructuring as the prime example of driving up profits by ratcheting down on labour costs to drive up productivity gains. Second, raising or introducing new taxes can also generate revenue. In neoliberal Turkey this has involved introducing and increasing value-added tax (VAT) and personal income tax receipts while reducing corporate taxes and practically eliminating import and export taxes to favour domestic and foreign corporate interests. Third, issuing official debt by borrowing against future tax revenues also generates present revenue of sorts. Austerity has become a key strategy by which authorities can increase the amount of accessible present fictitious capital revenues (debt). Increasing domestic worker productivity is another. Both imply greater creditworthiness to the financial capitalists purchasing the state debt bonds.

There is also a third way in which labour is vital to an understanding of EFC: the intensification of bank workers’ labour. With the rise of neoliberalism and especially following the 2001 crisis state elites and bank management have systematically driven down labour costs in the banks. This has also entailed a very disciplinary element. The 2001 Banking sector Restructuring Program involved laying off 50 000 of 168 000 bank workers in Turkey. About 34 000 of these were state bank workers. Those workers who remained in the state banks were forced to accept new contractual conditions that removed many state worker protections. Despite resurgent bank profitability levels, not until 2010 did staff numbers surpass their 1999 levels. The significance of this is reflected in the falling level of staff costs as percentage of the banks’ balance sheet. In 1993 staff costs equalled 3.36 per cent of the balance sheet and in 1999 2.65 per cent. By 2003 this had fallen to 1.75 per cent and to 1.35 per cent by 2009 (about half their pre-crisis level). How significant are staff costs monetary terms? Extremely. For the Turkish banks listed on the İSE (Istanbul Stock Exchange) in 2010 staff costs (at only about 1.35 per cent) came to over TL10.6 billion. This sum equates to over half of the banks’ total after-tax profits of TL20.5 billion. The collapse in staff costs must be understood in the wider context of the Turkish government’s attack on organized labour since the 1980s and with the more recent trend towards outsourcing in the banking sector that was sanctioned by new rules in the 2005 Banking Law and 2006 Regulations. Bank labour, as even the 2003 McKinsey Report *Turkey: Making the Productivity and Growth Breakthrough* asserts, is a key aspect of bank profitability strategies.

Let me reiterate. First, labour in Turkey is the material basis of socialization of financial risks at the level of society and, second, labour is also vital to bank profitability via the intensification of labour in banks. Given the centrality of labour to the material reproduction of banking and finance in Turkey follows that organized bank labour is a potential source of powerful social mobilization against EFC should they be politically mobilized.

Thinking about alternatives to EFC

Each Marxian premise for interpreting the current phase of EFC is presented in such a way that it integrates some general structural features of EFC in light of the historical specificity in Turkey such that the possibilities for change remain open to individual and collective agency. That is, I suggest the analytical framework discussed exposes the social relations of power underpinning EFC in Turkey while providing the analytical foundations for understanding alternatives to EFC, particularly in the key sector of banking. This change can be to the benefit of the working majority and poor but this demands collective political mobilization organized and institutionalized in their own behalf. In the concluding chapter of *States, Banks and Crisis* I build on the above analytical framework to argue that any substantive alternative to EFC cannot simply modify the form of capitalism in Turkey (that is, for example, to simply better regulate the banks and mounting inequality). Rather, the way in which Turkish society reproduces itself and the central role of banks therein must be institutionalized along with radically different and democratized social economic premises that break with the structural inequalities and exploitative practices of EFC. The central point made is that the banking system and financing of development must be subordinated to collective ownership and developmental goals rather than commercialized profit imperatives.

I suggest there are three necessary, but not sufficient, conditions to break with EFC vis-à-vis banking in Turkey. First, any substantive change involves capturing political power and restructuring the state financial apparatus. This entails dismantling the institutional and material foundations of emerging finance capitalism, on the one hand, and constitutionally recognizing collective property and worker-owner rights. This process of democratizing finance implies the politicization of the financial apparatus in ways that would, for example, prevent current practices like the socialization of private financial risks at times of crisis.

Second, breaking with EFC also involves dispossessing financial capital of their institutions, amassed concentrations of property and wealth, and their overwhelming social power in Turkish society. As Hilferding understood a century ago, these actions require society making the political demand to take control of the banks. This is necessary because financial capital has proven itself irresponsible with society's collective resources being incapable of promoting anything like equitable social developmental objectives. We should be clear that this does not just mean the nationalization of private banks or maintaining state ownership of Halk, Vakıf, and Ziraat Bank but something different and more fundamentally democratic.

This leads to the third condition, namely that public policy must aim to subordinate the banks' operations in Turkey to the demands of a democratized social economy. National developmental policy needs to facilitate domestic monetary and financial autonomy along collectively determined social priorities. In this framework Turkish society itself collectively assumes responsibility for being democratic, participatory, and protagonist in the allocation of their collective monetary resources. As an integral part of this change the banks themselves will need to be reconfigured as semi-autonomous worker collectives within this collective paradigm. Organized bank labour unions must play a central part in this.

How could Turkey fare on these points? There is substantial capacity, indeed, possibility for change in Turkey but also significant barriers. There exists the material and institutional basis to initiate and begin experimenting with social democratized banking insofar as Turkey has large state-owned banks. These embody real spatial potential insofar as their branches and networks stretch throughout the country serving a unifying force for creating a new space of developmentally oriented and democratically subordinated financing for development. There are also important ideational and cultural factors that lend legitimacy to the project since the state banks have long existed and been discursively framed as integral to Turkish national development for decades. Yet while there is material, institutional, spatial, and discursive potential there presently lacks coordinated political mobilization and will in the leading political parties, all of which remain wedded to a more or less market-oriented strategy of development that involves a greater role for private banks.

Crisis, even the current global crisis, may provide an opening for changes in the political commitments to emerging finance capitalism, particularly the more global instability persists and domestic problems mount. Even the OECD will begin to explore the possible benefits of state-owned banks in an upcoming report on 'new models of development'. Yet crisis alone is insufficient to substantively counter the structural power of EFC in Turkey and to push back against what will almost certainly be waves upon waves of permanent working class austerity measures. Rather, progressive political and social forces need to organize and mobilize around achieving social ownership and democratized control in the arena of banking and finance.

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