Political Economy of Consumer Debt in Developing Countries: Evidence from Turkey

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ABSTRACT

This dissertation analyses the rise in consumer debt in developing countries over the last decade by drawing on the case of Turkey. It adopts a theoretical framework based on a political economy approach and examines the macroeconomic, institutional, political, and historical environment in which the rise in consumer debt has taken place. By locating the factors of indebtedness within an historically determined socioeconomic context the dissertation demonstrates the specific character of the rise in consumer credit in the age of financialisation. It is shown that consumer credit has grown markedly and its rise has been associated with related changes in the socioeconomic conditions within which the credit system operates as well as in the character of borrower–lender relations and in the perceptions and attitudes towards credit use within society. Analysis of the Turkish economy in the post-2001 crisis further shows that the interplay between the real and financial sectors has boosted consumer debt in the country.

There is much publicly available evidence indicating the rapid expansion of consumer credit to low-income wage earners in Turkey. The empirical section of the dissertation focuses on how and why workers have become increasingly involved with the financial system. The research is based on empirical material collected through questionnaires and interviews with workers in the metal sector of industry. The results show that consumer debt in Turkey has become a part of the daily life of workers as a consequence of, first, growing dependence on debt to support basic reproduction of labour power and, second, of the aggressive marketing strategies of banks towards consumers. Further, the results provide evidence of a link between workers' debt and the type of wage employment by demonstrating that insecurity of employment and income have increased the tendency to borrow, and thus the vulnerability of workers to debt. Finally, there is an unequal power relationship between banks and workers which has allowed banks to extract profits out of wages and salaries.

Table of Contents

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ABBREVIATIONS

BAT	Banks Association of Turkey
BNIM	Biographic Narrative Interpretive Method
BRSA	Banking Regulation and Supervision Agency
BWP	Bretton Woods Project
CBRT	Central Bank of the Republic of Turkey
CGFS	Committee on the Global Financial System
CMBT	Capital Markets Board of Turkey
EOI	Export-oriented Industrialisation
FDI	Foreign Direct Investment
GDI	Government Debt Instruments
ILO	International Labour Organisation
IMF	International Monetary Fund
ISI	Import-oriented Industrialisation
IT	Inflation Targeting
MOLSS	Ministry of Labour and Social Security
NPL	Nonperforming Loan
OPEC	Organization of the Petroleum Exporting Countries
SDIF	Savings Deposit Insurance Fund
SME	Small and Medium Enterprises
SPO	State Planning Organisation
TEPAV	Turkish Economic Policy Research Institute (Türkiye Ekonomi Politikaları Araştırma Vakfı)
TL	Turkish Lira
TOKI	Housing Development Administration of Turkey (Toplu Konut İdaresi Başkanlığı)
TURKSTAT	Turkish Statistical Institute
TÜSİAD	Turkish Industrialists' and Businessmen's Association (Türkiye Sanayici ve İşadamları Derneği)

LIST OF FIGURES

LIST OF TABLES

Chapter 1: Introduction

1.1 Background of the Study

The last four decades have been marked by the broadening and deepening role of finance, which is often discussed in reference to the process of financialisation. The important elements of the process incorporate a variety of issues, including the rise of shareholder value, derivatives and securitisation, corporate governance, financial disintermediation, frequency of financial crises, and so on. This dissertation focuses on a particular dimension of the phenomena: the causes and consequences of the increasing penetration of finance into the daily lives of working class households in developing countries, specifically drawing on the experience of Turkey.

Over the last 40 years, consumer credit in its various forms has been at the heart of modern economies, though the practice of buying on credit is not a new phenomenon. Extension of credit to individuals has existed in various forms, from pawnshops to loan sharks to informal credit, since prehistoric times (Finlay, 2009). Since the mid-20th century, however, how credit is extended has significantly changed, particularly with technological advances. The post-war period saw rapid expansion of bank credit to households, particularly in the United States, mainly for the purchase of houses and consumer durables. Since the 1970s, wage earners have increasingly become involved in formal lending agreements in a number of different forms, and consumer credit has expanded at unprecedented levels in many advanced economies. Further, the first decade of the 21st century has witnessed remarkable growth in household credit across many developing countries, albeit from a low base (IMF, 2006).

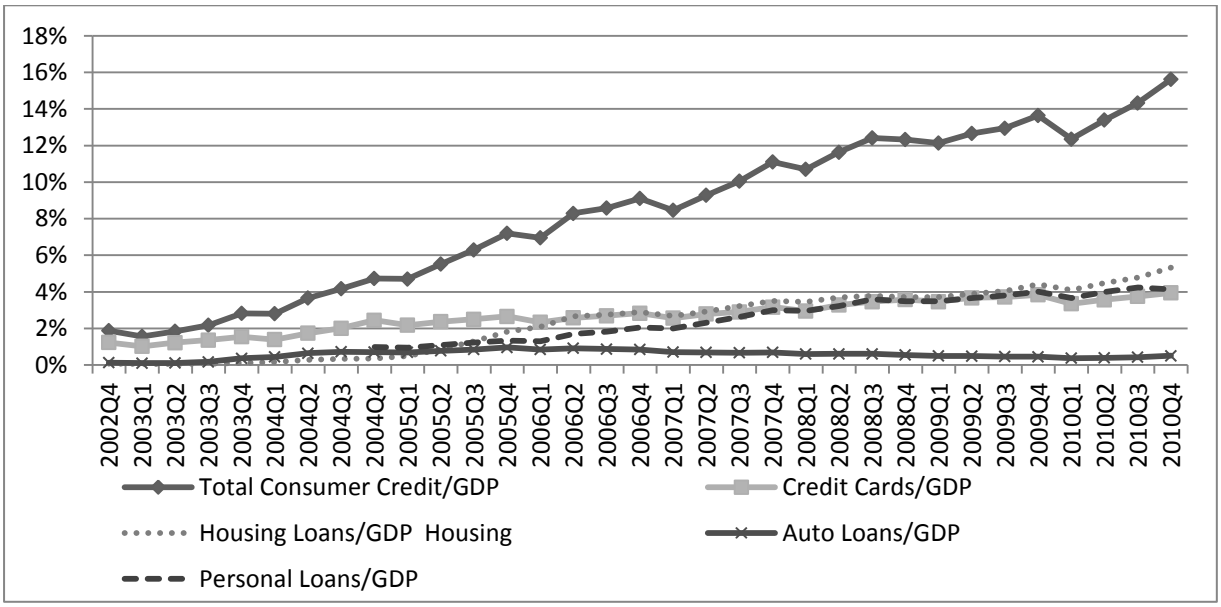
One of the arguments of this dissertation is that although credit has existed through history, the rise in consumer credit in the age of financialisation is historically unique. The differences in the current era are not only related to greater access to consumer debt, they are also related to the changing nature of borrower–lender relations, the socioeconomic conditions under which credit operates, and the changing perceptions and attitudes towards credit use within any society. In this sense, the expansion of consumer credit has become an important aspect of financialisation in developed and developing countries.

In recent years, a growing body of literature has investigated financialisation, particularly the ways in which individuals are integrated to the financial system (see Bryan et al., 2009; Dos Santos, 2009; Dymski, 2009; Lapavitsas, 2009a, 2009b). The insightful

analyses in this literature have improved our understanding of the financialisation of personal income to a great extent. Yet the literature is still very much confined to an analysis of the financialisation phenomenon in the context of core capitalist countries. There have been few analyses of financialisation (and almost none on its implications for households) focused on developing countries. This dissertation responds to this lacuna by exploring household borrowing and indebtedness as important aspects of financialisation of personal income in developing countries, particularly focusing on Turkey. The case of Turkey is worth considering because it has a fast growing consumer credit market, leading to growing societal concerns about the jump in personal indebtedness. Further, an in-depth analysis of the phenomenon in the context of the Turkish economy can offer insights into the dynamics of the rapid growth of consumer credit in other developing countries facing similar experiences.

In contrast to developed countries, household borrowing from financial institutions to buy goods and services does not have a long tradition in Turkey. The first appearance of credit cards dates to the 1970s, and banks lending directly to consumers for personal use started only in 1988 (Bilgin & Yavaş, 1995). Since 2003, there has been a rapid surge in household-sector borrowing from financial institutions. As a proportion of Turkey's GDP, the total of consumer loans and credit card debt increased sharply from 1.8% in 2002 to 15.6% in 2010. As can be seen from Figure 1.1, growth in credit cards and housing and personal loans all significantly contributed to this trend. Accordingly, in 2010, the share of household loans reached 33% of total credit extended to the private sector, up from only 13% in 2002.

Figure 1.1: Turkey's Consumer Credit to GDP, 2002Q4-2010Q4

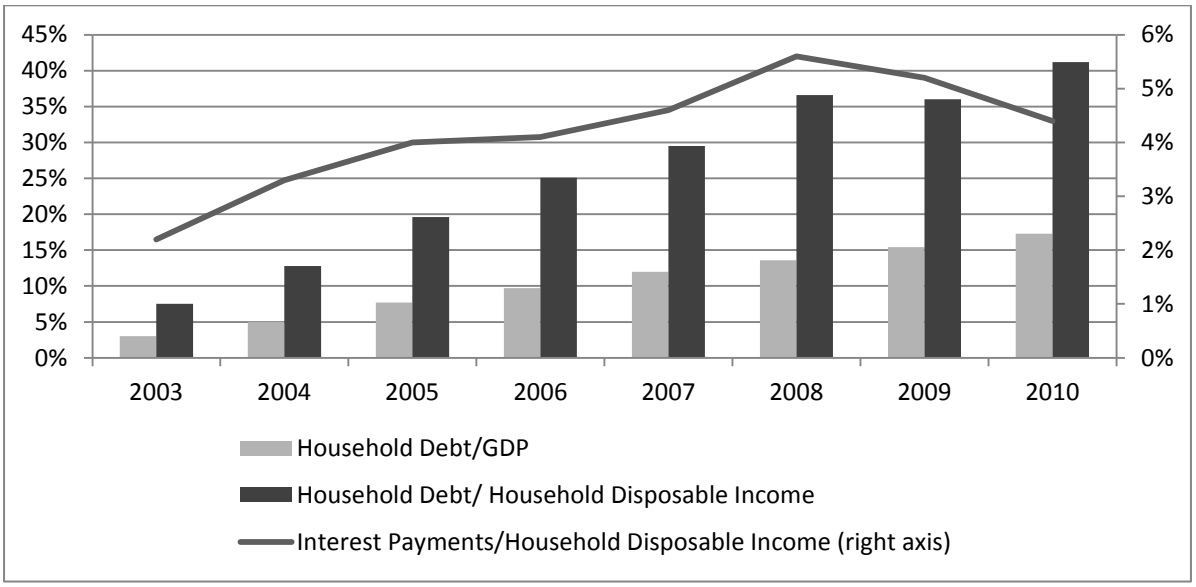


Source: Author's estimation based on data from BRSA and TURKSTAT

Note: GDP data are rolling four-quarter sums. Data on personal loans available after 2004.

This rapid rise in consumer credit usage has found its reflection in rising household indebtedness. As Figure 1.2 shows, there have been steady increases in the ratios of household debt to GDP and household debt to disposable income. Strikingly, household debt reached 41% of disposable personal income in 2010, implying a six-fold increase since the end of 2003. The increase in household liabilities has not been matched by a similar increase in household assets, so the era also witnessed a rapid increase in the household leverage ratio. The ratio of financial liabilities to assets rose from 8.5% to 40% between 2003 and 2010 (see Table 4.3 in Chapter 4).

Figure 1.2: Household Debt Indicators for Turkey



Source: Figures are from CBRT (2007, 2008, 2010, 2011b).

Note: Household debt consists of gross consumer credit and credit card balances extended by banks and consumer finance companies. The data for the period after 2008 also include liabilities related to TOKI's (Housing Development Administration) housing sales.

These developments in the household balance sheet have been accompanied by a rise in the burden of debt servicing. The share of interest payments in disposable income of households increased from 2.2% in 2003 to 5.6% in 2008, indicating increasing transfers of household income to the financial sector (see Figure 1.2). High interest rates, especially on credit cards, were important determinants in the rise in Turkey's consumer debt service burden.[1] In response to rising public discontent against high interest rates on credit cards, there were significant interest rate cuts after 2006, contributing to the decrease in debt burden after 2008.

For a time, it appeared that Turkey's growing consumer credit market would mainly serve the middle- and upper-income households because they have stable incomes. In the initial phases of their introduction in the late 1980s and early 1990s, consumer credit and credit cards mainly functioned as alternative payment methods for instalment plans offered by manufacturers for the purchase of consumer durables such as cars and furniture. However, over the last decade, consumer credit has increasingly penetrated into the daily lives of low-

[1] Excessively high interest rates, especially on credit cards, have been a burning issue in Turkey, as elaborated in detail in Chapter 7. Although there have been regulations regarding interest rates on credits cards, the annual compounded interest rate on credit cards reached 30% as of 2011 while the annual inflation target was 5.5% for the year.

income households and increasingly been used to pay everyday expenses. The Banks Association of Turkey (hereafter BAT), give detailed accounts of the consumer loans extended according to several criteria. The statistics provide valuable insights into the nature of consumer borrowing in Turkey, indicating that currently the overwhelming majority of those borrowing consumer loans have low incomes.

Table 1.1: Percentage of Consumer Loan Borrowers by Income Groups in Turkey

Monthly Incomes	2006	2007	2008	2009	2010
< 1.000 TL	31.4	31.0	37.6	42.4	41.6
1.001–2.000 TL	16.8	21.7	23.9	28.2	27.9
2.001–3.000 TL	5.9	6.6	8.0	10.0	11.4
3.001–5.000 TL	4.8	5.7	5.5	6.2	6.0
> 5.001 TL	7.8	5.8	6.6	6.8	6.3
Unclassified	33	28.9	18.1	6.1	6.5

Source: BAT

Table 1.2: Percentage of Consumer Loan Borrowers by Occupation in Turkey

	2006	2007	2008	2009	2010
Employed	44.6	49.5	49.4	54.8	54.1
Self-employed	6.5	7.6	7.6	7.0	7.2
Other	16.0	14.7	25.4	33.0	33.1
Unclassified	32.9	28.1	17.5	5.2	5.4

Source: BAT

Note: The data are available starting in 2006.

The percentage of borrowers in the Unclassified category is very high until 2009. If we consider the 2009 and 2010 columns in Table 1.1, it is striking to see that in both years, 42% of borrowers of consumer loans were people who earned less than 1000 TL. Twenty-eight per cent of the borrowers were those whose average monthly income was between 1000 TL and 2000 TL. These two low-income groups together constituted nearly two thirds of the total borrowers of consumer loans in both 2009 and 2010 and are those most prone to future debt problems.

Further, data on the composition of borrowers by occupation reveals that wage earners constitute the largest share of consumer loan borrowers. This is related to the fact that

wage earners with fixed incomes serve as reliable borrowers because many banks accept wages as collateral for extending consumer loans. In most instances, banks automatically subtract credit card charges and interest payments from deposited salaries. To recap, these figures are important in showing the penetration of consumer credit into the lives of low-income people and wage earners in Turkey.

1.2 Statement of Problematic

Despite the significant increase in consumer credit usage and household indebtedness in Turkey, no comprehensive analysis of this debt phenomenon has yet been made.[2] Official data fail to provide information on what is the main focus of this study: the characteristics of workers' indebtedness. The explanations by policy authorities for the reasons in the rise in consumer credit usage in Turkey are similar to the mainstream accounts of the phenomenon. Mainstream approaches generally include low and stable inflation, low-interest rates, higher income levels, demographic changes, and financial liberalisation as contributing factors behind the current rise in consumer credit and household debt (see IMF, 2006; Ma et al., 2009). According to these approaches, rational individuals simply respond to economic stimuli by both greater borrowing and asset acquisitions.

The arguments are similar for Turkey. For instance, Başçı (2006), the current governor of Turkey's Central Bank, stated that the demand for consumer credit in the mid-2000s was a consequence of the remarkable fall in inflation and interest rates. Expansion of consumer credit in Turkey is considered by some to be an entirely positive development, and proves the realization of deferred consumption of durable goods before and during the 2001 crisis (Başçı, 2006).[3] The gap in these accounts, however, is that they only provide a partial picture of what prompted the remarkable growth of consumer credit. It is a fact that improvements in Turkey's macroeconomic environment and the country's economic growth stimulated consumption of durable goods. However, a broader analysis of the specific socioeconomic context under which consumer credit expansion occurred, the influence of

[2] There are only a few studies that focus on the rise in household indebtedness by examining the transformation of the banking sector after the 2001 crisis. One study, by Bakır and Oniş (2010), argued that while the banking system became more robust thanks to regulations established in the post-crisis period, new problems emerged regarding weaknesses in consumer protections and inefficient competition policies. Ergüneş (2009) analysed the dynamics related to Turkey's integration into the world economy in the post-2001 crisis era and discussed that the rise in consumer credit debt was part of the transformation of banking-sector activities during that period.

[3] Indeed, Van Rijckeghem and Üçer (2009) estimated the spending that would be necessary to recover from the compressed spending levels for durable goods during the crisis and discovered that by 2004 the stock of durables per capita had recovered to pre-crisis levels.

policies and institutional environments, and the social norms surrounding borrowing have to be considered during an examination of the credit and debt phenomenon.

Macro-analysis provides crucial evidence on the expansion of consumer credit to low-income groups and wage earners, and this dissertation takes these broader considerations and makes a detailed analysis of the causes and consequences of household indebtedness, particularly that of workers.[4] Some of the questions that this study addresses are: Why has credit become an established part of everyday life in Turkey? For what reasons is the credit used? What are the supply-and-demand reasons behind the remarkable rise in consumer debt? In what ways have workers been implicated in the expansion of consumer debt? Is there a link between employment type and characteristics of borrowing? If so, how should it be analysed?

In undertaking a detailed analysis of the causes and consequences of workers' indebtedness, this research contributes to the existing body of knowledge by using quantitative and qualitative data gathered during fieldwork with metal workers in Istanbul, Turkey. The sample consists of three different groups of workers: factory workers, industrial estate workers, and shipyard workers. These three groups differ from each other in relation to their working arrangements, legal rights, and methods of wage payment. The goal of constructing a heterogeneous sample is to compare and contrast the relationship between workers' type of employment and their engagement in financial affairs. Chapter 6 presents a detailed description of the sample and methodology of the research.

1.3 Contributions of the Study

Based on empirical and theoretical analyses, this dissertation makes the following interrelated arguments.

1) An accurate analysis of the rise in household indebtedness should consider the importance of analysing the phenomenon within historical and socioeconomic contexts. To build the theoretical framework of the dissertation, this study offers a critical discussion of the mainstream theoretical approaches to banking and credit. In

[4] Both the terms household and workers are used throughout this study. As this dissertation draws on Marxist political economy literature, the term worker is used to be consistent with the class analysis in this literature. In the rest of the dissertation, household is used as a category to be coherent with the data obtained from national accounts and neoclassical literature. In conducting the fieldwork on worker indebtedness, a household- or family-based measure is used, as is appropriate for studies of consumption behaviour and attitudes that refer to this working class.

this context, it presents an overview of the information theoretic approach to finance, and provides an analytical review of the mainstream literature on the recent expansion in consumer credit. In the information theoretic approach, credit imperfections and information asymmetries between lenders and borrowers are found to explain financial market behaviour. With no inquiry into the character of knowledge acquisition processes, the theory supposes that agents will rationally optimise their individual positions by adjusting decisions based on available information. Hence, once information asymmetries are resolved, there will be no problems within the financial markets.

More specifically, in relation to consumer credit, a neoclassical understanding of the phenomenon uses a microeconomic analysis of consumer behaviour, developing a theory based on an examination of a representative individual who tries to make rational choices in response to changes in his or her income. As an alternative, this dissertation conceptualizes consumer credit, from a Marxist political economy perspective, as part of broader social relations and dependent on the developments in the forces and relations of production. To conceptualize consumer credit from a Marxist perspective, we need to understand how money is analysed and what the role of finance is in that framework. Therefore, this dissertation analyses the functions of money, and establishes principles regarding the role of credit and banking system in a capitalist economy. This analysis provided insights into the interconnected relations between finance and real accumulation. This discussion also provides insights to and an understanding of the reasons behind the current diversification of bank businesses towards consumer lending. The argument is that banks should be analysed as capitalist enterprises and that banking capitalists' decisions are determined by their intent on earning the largest profits. In such an analysis, banks should be treated as an inherent part of the capitalist accumulation process.

On that basis, this dissertation argues that an inquiry into banking activities and specifically the expansion of consumer credit must include an examination of the socioeconomic and political transformations, through which the capital accumulation process evolves. Benefiting from the conceptualisations of the recent rise in consumer credit in the financialisation literature, this study carries out a detailed analysis of the many transformations that have occurred in Turkey in the last decade. This requires an understanding of changes in the mode of integration into the world economy,

changes in the financing behaviour of firms, and changes in both the labour markets and the policies of the welfare state. These changes have all played central roles in banks' orientation towards new activities and conditioned the ways in which financialisation has taken place.

2) An analysis of the dynamics of the Turkish economy demonstrates that the post crisis period has been characterised by Turkey's deepening integration into the global economy. This has taken place mainly through trade, foreign direct investment, and other capital flows. Throughout the period, there has been a steady decline in inflation and interest rates, accompanied by high growth rates. However, these developments have not been without its problems. The labour market is one of the areas that has undergone great changes during the rapid transformation of the Turkish economy. Analysing the developments in productivity, real wages, and the employment rate reveals how the economy has experienced major transformations in production and trade structures in contradictory ways. Further, this study also discusses how the increased costs and risks that labour carry correspond with attempts to increase the competitiveness of the economy in international markets. In this context, this dissertation particularly focuses on the implications of increased flexibility in labour markets and the introduction of new types of nonstandard forms of work, as it is related to the increased indebtedness of workers. In addition, this dissertation also draws attention to the welfare losses that wage earners have experienced due to changes in social policies. At the end of such a broad analysis of the developments affecting wage earners, it becomes clear that an accurate understanding of the reasons behind the rise in consumer credit must shift away from an emphasis on the decline in interest rates and lower inflation to a broader analysis that accounts for the developments in the labour market and social policies.

3) An inquiry in the macro-dynamics of Turkey's economy offers insights into the supply-side determinants in the rise in consumer credit and debt. This process is related to financialisation, as it incorporates emergence of new financial actors and transformation in the business of financial institutions. The financialisation of the Turkish economy, and developing countries in general, can be traced to the development of the domestic public bond markets in the late 1980s, which played an important role in both the integration of those countries into the global economy and in shaping their financial systems. This study examines the involvement of households in the financial systems of developing countries in the 2000s as an aspect

of financialisation, adding a new dimension to the process. It highlights that the last decade has witnessed increasing diversification of banking sector activities, with a significant shift toward consumer lending. This same process has occurred in many countries driven by dynamics specific to each country. In the case of Turkey, the main determinants have been the reformation and restructuring of the financial sector in the aftermath of the 2001 crisis, developments in the public bond market, increased access to funds from abroad, and foreign banks' entry into the financial sector. These developments have all played role in increasing and easy availability of credit to greater numbers of people than ever before. In addition, new banking techniques have induced lenders to target wage earners and socially vulnerable groups for profitable expansion.

4) Apart from giving an account of the rise in consumer credit and personal indebtedness, both from demand and supply sides, this dissertation also argues the importance of bringing an analysis of rising indebtedness into a wider analysis of working life. The findings from this research add substantially to our understanding of workers' indebtedness in several ways. Some of the most profound findings are revealing that indebtedness is widespread among workers; that consumer loans and credit card debt are the most common types of debt, indicating that finance has substantially penetrated into the daily lives of workers; and that workers have difficulties managing their debt and, therefore, they repeatedly roll over their debt or increase it by additional borrowing. This is evident in participants' reporting that the most common reason for seeking bank loans is to meet other debt obligations.

A further key contribution of the research is that it offers insights into the strong connection between the structure of jobs and nature of indebtedness. The results from the fieldwork demonstrate that workers who have flexible and casual jobs are more prone to credit and debt problems. Moreover, they most often rely on credit cards instead of consumer loans as a source of funding to smooth the fluctuations in their income. On a theoretical basis, this can be best understood by conceptualising consumer credit as a claim on the potential of workers to produce future value. Consumer credit is issued against the anticipation of the value of that future labour power. Nevertheless, in the current phase of capitalism, the realisation of labour power has increasingly become unstable as flexibility in the labour markets increase. This is one of the fundamental reasons for the increasing vulnerability of workers to consumer credit.

5) Based on a theoretical analysis and benefiting from the work of Lapavitsas (2009a), this dissertation suggests that the process by which financial institutions make profits from workers' wages can be conceptualised as "financial expropriation" which has an exploitative feature. This dissertation discusses this by drawing on Marx's writings on secondary exploitation. In the Marxian analysis, extraction of surplus value from labour, taking place in the process of production, is the main form of exploitation in a capitalist society. However, this is not the only form of it. Marx (1981) referred to a secondary form of exploitation covering credit to consumption. He discussed usury by lending to small producers in pre-capitalist societies as a form of secondary exploitation and stated that lending to wage earners in a capitalist society is characterised by a similar exploitation. In both cases, loans granted to borrowers do not go into production of surplus, which would help to pay interest charges. In Marx's analysis, there was no elaboration on lending to wage earners in detail, as the extent of this practice was limited at the time of his writing (and arguably because such an elaboration would divert attention from his main analysis). However, in the age of financialisation, this has become a characteristic of capitalism, as financial institutions have increasingly extended their business toward household finance and as the demand for consumer credit has substantially increased.

Consumer credit is a complex area of inquiry, and problems inherent to the working class and other socially vulnerable groups can be best understood in relation to the peculiarities of labour power as a commodity. Credit is a claim on future income and its repayment depends on the future potential of labour to produce value. To be able to do this, labour power has to be reproduced. A key point to consider is that labour power, unlike other commodities, is not capitalistically produced. Although its reproduction entails the purchase and use of capitalistically produced consumption goods, the reproduction process takes place within the family and it involves uncompensated housework, childcare, etc. This implies that there are unpaid resources that go into the reproduction of labour power. One of the arguments of this dissertation is that how labour power is produced creates room for banks to take partial appropriation of the value represented in wages. In other words, non-capitalist dimensions of the value of labour power may allow partial appropriation of wages as workers and their families compensate for the decline in their household income by working harder at home. This also suggests that the debt service burden on consumer

credit has an impact on living standards, since the latter is determined by what remains of wages after interest payments are made.

6) This study also draws attention to the fact that an analysis of how consumer credit is integrated into the daily lives of households necessitates considering economic conditions and the institutional structures undermining those conditions, as well as social norms and cultural trends. Only by drawing these different aspects of the credit phenomenon together can new insights be gained into the social context of consumer credit and can an accurate understanding of how borrowing has become integral to the daily lives of wage earners be developed.

   In this regard, qualitative data is useful in shedding light on the cultural aspects of borrowing. Field interviews reveal that changing cultural trends towards consumption are an important element in understanding the reasons behind the increased demand for borrowing. Further, these interviews offer insights into changes in attitudes of individuals towards debt and credit. Once regarding credit and debt as unacceptable, spurred by aggressive lending practices and increased needs to borrow in the face of income fluctuations, the interviewees now seem to accept credit and debt as indispensable parts of daily life.

7) Last, it is argued that rather than liberating working people, conditioned by worsening socioeconomic conditions, financialisation of household income has tied individuals to insecure financial markets and to the capitalist system in general. Interviews reveal that debt adds new dimensions to capital labour relations by functioning as a disciplining mechanism. Evidence suggested that indebtedness increased the likelihood of adding more labour to market, working longer hours, and accepting harder working conditions. As such, being in debt deepens workers' commitment to the capitalist production system.

1.4 Organisation of the Study

The dissertation is organized as follows. Chapter 2 offers a theoretical examination of banking and consumer credit. It starts with a critical discussion of mainstream approaches to credit relations involved in bank lending. The second part of the chapter analyses the Marxist political economy approach to the credit phenomenon. This analysis involves building a framework to examine consumer credit in socioeconomic and historical contexts.

Chapter 3 conceptualizes the recent rise in consumer debt by drawing on the financialisation literature. It gives an introduction to the financialisation literature and discusses recent transformations in the non-financial and financial sectors of developing countries. It offers a general understanding of the financialisation of developing country economies and accounts for factors that are responsible for the rise in consumer credit and indebtedness.

After discussing financialisation in relation to developing countries, chapters 4 and 5 turn to a macro-analysis of the Turkish economy. Chapter 4 has two broad goals. The first is to trace the financialisation process of the Turkish economy. In order to do this, the chapter starts with an analysis of the developments in real and financial sectors in the post-1980 period. This analysis includes a discussion of the development in the public debt market in the late 1980s as an important aspect of the financialisation of the Turkish economy. Along with this discussion, the chapter presents the dynamics of the integration of the Turkish economy into the world economy and impacts of this process on the shaping of Turkey's financial system. The second goal of the chapter is to present the developments related to the expansion of consumer credit and rise in household indebtedness by focusing on the post-2001 crisis era.

Chapter 5 positions rising household indebtedness within a broader context of historical and socioeconomic changes that the Turkish economy has undergone in the last decade. It explains the structural transformations in production, foreign trade, labour markets, and social policies in Turkey's continuing integration into the world economy. The aim in doing this is to shed light on the demand-side factors behind the rise in indebtedness. The chapter then analyses the dynamics behind the transformation of banking sector activities so as to present an understanding of the conditions that have allowed consumer credit to flourish. In this regard, it focuses on the reforming of the banking sector, the monetary and fiscal policies under which banks operate, the increased foreign borrowing of financial and nonfinancial institutions, and the entry of foreign banks to the sector.

Chapter 6 presents the methodological framework of the fieldwork conducted to investigate the implications of the expansion of consumer credit, particularly for workers. It starts by giving a critical account of positivism and interpretivism as two main methodological positions mentioned in the literature. It also discusses how to decide which method to choose based on the methodological positions attributed to quantitative and qualitative methods. The chapter argues that the use of mixed methods best suits the aim of this study. However in applying a mixed method approach, the research takes neither a

positivistic nor an interpretivist stand. The chapter discusses the Marxist approach of dialectic materialism as the congruent paradigm in this study's research. The chapter gives a detailed description of quantitative (survey) and qualitative (life stories) methods used in the study and it discusses how using mixed methodology contributed to the research. It concludes with an overview of the processes of the pilot study, data collection, and data analysis in relation to the methods used in the research.

Chapter 7 introduces findings from the survey carried out during the fieldwork. It provides a descriptive analysis of the nature and extent of indebtedness among workers based on a questionnaire filled out by 220 workers. More specifically, the chapter provides information about the following points: the reasons behind indebtedness; the changes in workers' attitudes towards indebtedness; the relationship between the quality of employment and debt; the changes in the relationships between workers and banks; and savings and assets of the participants.

Chapter 8 examines the qualitative data collected during the fieldwork. This chapter presents an analysis of five case studies collected through the life story method. These cases provide ample evidence on the cumulative impact of rising unemployment, changes in the financial situations of workers, and effects of the 2008 crisis on workers' debt. Along with providing insights into the reasons, the cases also demonstrate how the perception of credit has changed among workers. Finally, the chapter sheds light on how capital–labour relationships are affected by the rise in indebtedness. This final chapter draws on the entire dissertation to assess all the findings and discussions made throughout the study.

Chapter 2: Theoretical Framework

2.1 Introduction

This chapter builds an analysis of money, banking, and credit relations to understand the rise in consumer credit in the age of financialisation. The theoretical account given in this chapter frames the empirical discussions in the following chapters. This chapter has two broad aims. First, it gives a critical review of the information theoretic approach to banking and credit relations. Second, it develops a political economy understanding of money, banking, and consumer credit by drawing on the Marxist analysis.

The information theoretic approach has become the dominant paradigm in mainstream analyses of banking and finance in the last three to four decades. In brief, incorporating information-related issues into an analysis of finance lies at the core of this approach. Different degrees of information that agents possess are argued to create market imperfections, especially in the form of informational asymmetries. From this point of view, all aspects of banking and finance are understood as resolutions to information problems and transaction costs between creditors and debtors. This chapter contains an overview of several of the key papers on the information theoretic approach to banking and finance, which helps to understand the analytical approach taken in this strand of literature (e.g., Boyd & Prescott, 1986; Diamond, 1984; Leland & Pyle, 1977). This literature review shows that, in the information theoretic approach, banks and financial intermediation are modelled through several frameworks, which explain their roles generally as to monitor borrowers on behalf of lenders and to reduce the risk of moral hazard and adverse selection. Other contributors (e.g., Allen & Santomero, 1997) include risk management as a key role of banking as well.

In relation to consumer credit, the mainstream view is grounded on the hypotheses of permanent income and life cycle consumption. Both are based on the economic rationality of individuals who try to smooth consumption over their lifetimes. In this context, individuals can be expected to borrow when their income is low and to save when their income is high, with the aim of maintaining a constant level of consumption. Although, the model has been extended to cover the uncertainty and precautionary saving, its basic premise remains the same: the consumers aim for a consistent standard of living across predictable income changes over their lifetimes (Cynamon & Fazzari, 2008). Further, with the recent rise in consumer credit use and its related problems, the information theoretic approach has begun to play an important role in consumer credit analyses. By putting an emphasis on information

asymmetries and market failures, the information theoretic approach to consumer credit draws attention to the problems in lending to household sector.

This chapter argues that the information theoretic approach offers limited insights in general, and particularly, in relation to banking and finance. The fundamental weakness of the approach comes from its commitment to methodological individualism. This study argues that an accurate analysis of any socioeconomic phenomenon should consider the complexity of individual behaviour and locate it in a proper historical and socioeconomic context. Further, a reasonable analysis should account for how social interactions can end in complex outcomes that cannot be estimated by aggregating individual behaviours. The chapter also draws attraction to the problems of the information theoretic paradigm in relation to its treatment of market imperfections based on informational asymmetries; this paradigm is criticised because it ignores the complexity of knowledge flows.

Related to the second broad aim of the chapter, it is argued that the Marxist political economy approach to banking and credit reveals the shortcoming of the mainstream understanding of the issue. It does so by providing an understanding of money and finance in socioeconomic and historical contexts. Instead of seeing financial institutions as a reaction to information imperfections, a Marxist analysis focuses on class relations inherent in the capitalist mode of production. The study argues that an analysis of banking and credit relations should start with an inquiry into the nature of money. One of the distinctive features of the Marxist analysis of finance lies in its treatment of money as part of the circuit of capital. Extraction of surplus value allows for the self-expansion of money. Throughout the circuit of capital, plain money becomes money capital. The transformation of plain money into money capital embodies class relations and the exploitation of the working class by the capitalist class through surplus appropriation (Lapavitsas, 1997). It is the conflicting relations inherent in the self-expansion of money (rather than information asymmetries) that provide an understanding of the transactional problems in credit relations. In this context, banks are analysed as specialised enterprises that transform idle money, generated in the turnover of capital, into loanable through the credit system. In addition to this, an analysis of the historical emergence of banks sheds light on their role as money-dealing enterprises. Following Lapavitsas and Dos Santos (2009), this study argues that such an analysis of banks distinguishes the Marxist approach from the mainstream approach which examines banks as financial intermediaries at the outset.

This study also brings to light the distinguishing characteristic of the Marxist analysis that evaluates lender–borrower relations via the specific historical, political, and socioeconomic contexts under which each party operates. Moving from an analysis of the relations between industrial and banking capitalists, this chapter further extends the discussion to include the peculiar characteristics of the lender–borrower relations in the case of consumer credit. Stating from the insights put forth in Lapavitsas (2009a), lending to workers is argued to have an exploitative feature. From a Marxist approach, consumer credit can be conceptualised as a claim on future income, the repayment of which depends on the potential of labour to produce future value. As Bryan and colleagues (2009) claimed, consumer credit has an influence on the standard of living which, of course, is directly affected by what remains after interest payments are deducted from wages. This study argues that non-capitalist aspects of the reproduction of labour power create room for lenders to appropriate portions of wages as interest payments. In order to support this argument, this chapter includes a detailed discussion of the elements of the value of labour power and its reproduction.

The exploitative dimension of lending to workers and other non-capitalist agents is also discussed with reference to Marx's writings on usury in pre-capitalist societies. In analysing usury, Marx considered interest payments not just as a part of surplus value but also as a part of wages. Usury threatened the mode of production and drove independent producers into a class of proletariat with nothing to sell but their labour power. In pre-capitalist societies, the high interest rates charged on loans kept small artisans and peasants continuously in debt. The argument is that capitalist credit systems involve elements of usury that existed in pre-capitalist societies. Penetration of consumer credit into the daily lives of workers has resulted in a situation in which wage earners find themselves unable to lower their standard of living in order to pay interest on outstanding debts. In this context, financial institutions appropriate a part of wages in the form of interest. It is on that basis that lending to workers in a capitalist society is argued to have exploitative features.

The theoretical discussion framed here provides the basis for understanding the implications of the rise in consumer credit in the current era of capitalism. However, as mentioned above, an accurate understanding of the phenomenon necessitates considering specific socioeconomic and historic conditions. With that in mind, this chapter lays the groundwork for the next chapter, in which the dynamics of the world economy and developing countries in the age of financialisation is discussed, and how the exploitative

feature of consumer credit has become a characteristic of the current phase of capitalism is examined.

The remainder of this chapter proceeds as follows. Section 2 critically examines the information theoretic approach to banking by reviewing several of the key contributions as related to the line of inquiry of this dissertation. These contributions define financial intermediation as a solution to information imperfections. It then gives an overview of the analyses of consumer credit in the mainstream literature and discusses how the information theoretic approach has begun to dominate the discourse in recent years. Section 3 introduces a political economy approach to banking and consumer credit by drawing insights from the Marxist analysis. It includes an analysis of the nature of money and an explanation of how banks and consumer credit might be conceptualised in historical and social contexts. Section four concludes this chapter.

2.2 Mainstream Understanding of Banking and Consumer Credit

2.2.1 The Information Theoretic Approach to Banking

The information theoretic approach has come to dominate the mainstream analysis of banking and finance in the last three to four decades. This approach was first developed from an extension and modification of the general equilibrium framework introduced by Walras and further developed by Arrow and Debreu (1954).[5] Two of the key fundamental assumptions of the Arrow–Debreu model of general equilibrium (GE) are perfect information and complete markets. According to this model, under complete markets, perfect competition leads to 'pareto efficient'[6] outcomes. With perfect information, there is no need for financial institutions because lenders and borrowers would interact with each other in costless way at optimal prices. Additionally, under this model markets are characterised by negligible transaction costs and little risk. Based on this line of reasoning, financial intermediaries are, at best, tolerated as temporary institutions (Scholtens & Wensveen, 2003). As markets reached equilibrium, they would be perfect and complete, leaving no room or need for financial institutions (Scholtens & Wensveen, 2003). Lenders and borrowers would know how and where to find each other with this perfect information. Nevertheless, since this

[5] General equilibrium theory analyses the determination of prices and behaviour of supply and demand in a market economy. Market clearing equilibrium and flexible prices are the key aspects of the theory. In the framework of general equilibrium, prices rise for a good that is in excess demand and fall for a good when in excess supply. Thus, flexible prices bring about equilibrium between demand and supply in perfectly competitive markets.

[6] This is the idea that it is not possible to make some individuals better off without making others worse off.

understanding of financial institutions is contradicted with the increasing role that they play in the economy, in the 1970s and 1980s, economists came up with new ideas. Drawing on the information theoretic paradigm, economists analysed banks as financial intermediaries that should reduce transaction costs and information asymmetries.

The information theoretic approach is developed by abandoning the two assumptions of the typical GE theory, namely perfect information and complete markets (Fine & Milonakis, 2009a). By acknowledging the existence of asymmetric, costly information and the absence of full markets, the premises of the Arrow–Debreu model were broken down. Recently asymmetrical information has become one of the key explanatory concepts in the literature. Proponents of the information theoretic approach employed a principal agent framework and reexamined markets under the existence of pervasive asymmetric information between principal and agent: the situation in which one party in a transaction has more information than another. New Keynesians (e.g., Stiglitz & Weiss, 1981) extended the analysis to credit markets by examining credit market behaviour in the context of asymmetric information between lender and borrower.

An argument within the literature is that information asymmetry leads to inefficiency primarily through two channels: adverse selection and moral hazard (Mishkin & Strahan, 1999). Adverse selection refers to a situation in which inefficient results occur when buyers and sellers find a particular contract attractive.[7] By applying Akerlof's concept to credit markets, Stiglitz and Weiss (1981) claimed that adverse selection might lead to credit rationing, as banks cannot fully determine the credit risk of borrowers or the interest rate above the equilibrium level. The second channel through which asymmetric information leads to market efficiency is moral hazard. Moral hazard refers to situations where agents have incentives to act in ways that incur costs that they do not have to bear.[8]

Searching for relevant information might be costly in each case, therefore transactions might not be realised. The role of financial intermediaries is to reduce information problems

[7] Akerlof (1970) sıkça atıfta bulunulan "Limonlar için Piyasa" makalesinde ters seçim sorunlarının asimetrik bilgiden dolayı kaynaklandığını belirtir. Akerlof meseleyi örneklemek için ikinci el araba piyasasından bahseder. Bu piyasada, satıcı satmak istediği arabanın değerini bilir fakat alıcı bilmez. Her kullanılmış arabayı almak isteyen potansiyel bir alıcı vardır fakat bu alıcı satışa sunulan herhangi belli bir arabanın değerini bilmez. Bu durum, alınıp satılacak arabaların değerini değerlendirmede uzmanlaşmış tüccarların ortaya çıkmasını teşvik eder. Finansal aracılar da tüccarların araba piyasasında oynadıkları rolü kredi piyasasında oynarlar.

[8] The insurance market offers a strong example of the moral hazard problem (Varian, 1992). For example, consider auto insurance. A consumer with full insurance against auto theft may be less cautious about locking their car. However, insurance company will want to offer more insurance at fair rates only if a consumer takes adequate level of care. In the insurance market, the problem that arises because car owner can take less care of his or her car, for example not locking the car, is called moral hazard.

and transaction costs for the creditors and the debtors, hence enabling transactions. Leland and Pyle (1977) presented one of the earliest and most cited studies on this issue, putting forward the idea that financial intermediaries emerged to resolve information asymmetries. According to their argument, since the entrepreneurs know more about the quality of their investment than the lenders, entrepreneurs can "signal" the quality of their projects by investing more or less into these projects. However, as markets read higher entrepreneurial ownership as a signal of more favourable projects, entrepreneurs might need to invest beyond the optimal level. In this case, signalling would be costly. Leland and Pyle (1977) suggested "financial intermediation, which is difficult to explain in traditional models of financial equilibrium, can be viewed as a natural response to asymmetric information" (p. 372). Once borrowers form a coalition, which is interpreted as a financial intermediary, they could reduce the cost of signalling if there are some economies of scale.

Building on the signalling model of intermediation in Leland and Pyle (1977), Diamond (1984) demonstrated the importance of portfolio diversification in financial intermediation theories. He showed that economies of scale were present in the monitoring of firms under certain conditions. In other words, the cost of monitoring declines as the intermediary deals with increasing number of borrowers. Diversification across many projects enables an intermediary to decrease the variability of return in the portfolio. This, in turn, decreases lenders' need to monitor the performance of the portfolio. Based on this analysis, Diamond (1984) showed that "the intermediary's signalling costs are lower than an entrepreneur's, because the intermediary's costs are equivalent to the signalling costs of an entrepreneur with a smaller variance of specific risk" (p. 409).

Other contributions to the assessment of informational asymmetries as the foundation for intermediation came from Boyd and Prescott (1986). According to their model, agents face adverse selection problems prior to contracting and investing. The quality of each investment project is different and the information about it is private to each agent. The task is to identify weak agents with low- quality projects to avoid providing funds to them before giving funds to stronger agents. Assuming that each agent is endowed with the technology to evaluate projects, the agent could provide information for all prospective borrowers. This can be done in one of two ways. In the first, an individual agent evaluates his or her project and issue securities to other agents in order to fund the project. In the second, a coalition of agents produces information about investments and they issue claims. To Boyd and Prescott (1986), financial intermediaries are coalitions of agents who evaluate projects, produce information, and use it to allocate loans and set terms. To recap, in all of these studies, it is argued that

financial intermediation can provide more efficient information-gathering through various ways.

These accounts of the information theoretic approach to banking have been criticized due to their inability to explain the recent rise in the banking sector's activities and profits against the background of developments in the technology and decline in the cost of information. One of the most influential mainstream criticisms came from Allen and Santomero (1998):

> Financial systems in many countries have changed substantially over the past 30 years. Over this period many traditional financial markets have expanded and new markets have come into existence. Transaction costs have fallen and information has become cheaper and more available. However, these changes have not coincided with a reduction in intermediation. In fact, quite the reverse has happened. Intermediaries have become more important in traditional markets and account for a very large majority of the trading in new markets, such as those for various types of derivatives. Standard theories of intermediation based on transaction costs and asymmetric information are difficult to reconcile with the changes that have taken place. (1482-1483)

Based on their argument on the inconsistency between theory and practice, Allen and Santomero (1998) pointed out that banks' existence could not be explained only by the presence of asymmetric information. According to this new wave of mainstream thinking, the rise of new risk instruments like warrants and asset-backed securities and the rise in off-balance sheet activities should be analysed by focusing on the role of banks in assessing risk, not just by focusing on their role in reducing information asymmetries. As banks gain new management techniques through financial innovations, they should become better able to assess risk (Allen & Santomero, 1998; Scholtens & Wensveen, 2003). However, as demonstrated by the financial crisis triggered in the U.S. economy in 2007, financial innovations and institutional changes have proved to be inadequate in managing information asymmetries between lenders and borrowers and banks have failed to evaluate risk correctly.

Such technical analyses of the banking sector could be insightful. However, they are reductionist in the sense that they give an account of banking only from a microeconomic perspective. Although the information theoretic approach abandoned some of the flawed assumptions of the GE theory, such as complete markets and perfect information, it did not

touch on methodological individualism.[9] Methodological individualism enables formal modelling and it lies at the heart of mainstream economics. It refers to the notion that social reality can be explained in terms of cost–benefit calculations of individuals. This is based on the idea of rational individual behaviour, meaning individuals act to maximise their utilities. Such an understanding allows application of mathematical methods in economics by expressing different economic dynamics in terms of mathematical formulations. This is done via aggregating rational choices of representative agents in an economy.

There are two major problems with reductionism in terms of methodological individualism. First, deducing macro-analysis from the aggregation of individual actions is problematic because such an analysis assumes independent individual actions.[10] In reality there is no such "individual" whose demand function is representative of the demand function of the whole society (Ackerman, 1999). Socioeconomic and institutional environments have significant effects on individual behaviour. This is not to say that individual choices are entirely determined by socioeconomic and institutional contexts. As Hodgson (1986, p. 222) states, "our individuality and capacity to be free is formed by our socio-economic environment. The basic element in society is not the abstract individual, but the social individual, one who is both constructive within and constructed through society". What is argued is that while individuals have real choices, they are also influenced by their environment. Therefore, they should not be treated as "asocial, ahistorical, rational individual of standard economic theory, but a social individual situated within a proper social and historical context" (Fine & Milonakis, 2009b).

Even if one accepts that there exists a heuristic "representative individual" form of human behaviour from which societal behaviour can be derived, there still exists the problem of aggregation, which is the second major flaw of methodological individualism. As Fine (2007, p. 2) claimed, "not surprisingly, the leap from aggregation over individuals to the social is one of faith, and neither conceptual nor mathematical logic". Individuals are interdependent and social interactions may result in complex outcomes that cannot be

[9] In general, the information theoretic approach can be regarded as innovative in the sense that it integrates an examination of social structures, institutions, and customs into the economic analysis (Fine & Milonakis, 2009b). However, even acknowledging the importance of examining socio-historical context and institutions, the information theoretic approach is still based on the notion of methodological individualism and rational choice. In putting emphasis on analysing market imperfections, it considers it is rational to address the deviations from the perfect ideal market behaviour by nonmarket mechanisms. As such, in the context of the information theoretic approach, "institutions, customs, culture, habits and trust, for example, are no longer taken to be exogenous or non-rational. Rather such behaviour can be explained as the rational or optimising response to imperfections" (Fine & Milonakis, 2009b. p.65).

[10] See Kirman (1992) for a critique of analyses based on the representative individual.

estimated by summing up their individual actions. Furthermore, macroeconomics has distinctive characteristics of its own (Hodgson, 1998). Habits, customs, and routines are socio-culturally and historically determined and have an impact on the aggregate level as well as on individual actions. Therefore, analysis of macro-level phenomena should not start from microeconomic postulates.

The information theoretic approach is flawed not only in its reductionist approach in methodological individualism but also in its treatment of market imperfections based on informational imperfections. As argued by Fine (2001), under the information theoretic approach, the economy is seen as a construct of aggregated individuals that tries to maximise utility, and any departure from the equilibrium state is seen as an outcome of the interactions of imperfectly informed individuals. The information theoretic approach aims to explain market imperfections with an exclusive focus on information asymmetries. There is a strong emphasis on the heterogeneity of individual knowledge states, but there is no inquiry into the character of the knowledge-acquisition process. In other words, the information theoretic approach not only ignores the context-specific and socially constructed nature of knowledge, it takes it as exogenously given. Such an analysis can only offer limited insights into the complex nature of economic relations.

In relation to banking and finance, banks and other financial institutions are seen as solutions to deviations from perfectly competitive markets and their role is assumed to reduce information asymmetries between agents. This approach has dominated mainstream analyses of all aspects of financial affairs and provided the basis for the theoretical justification for financial liberalisation initiatives in developing countries, as will be discussed in Chapter 3. This study argues that an accurate understanding of the essence of financial behaviour, relations, institutions, and so on, should go far beyond the framework offered by the information theoretic approach. In criticising the mainstream banking theory, Erturk and Solari (2007) argued that the role of banks could neither be examined as financial intermediaries nor as risk managers. They gave a broader account of banking sector activities by providing evidence on the changing balance sheet structure and revenue sources of banks in developed countries. Their analysis showed that while bank lending to the corporate sector decreased, banks found other revenue sources by extending loans and selling investment instruments to households, and transacting between themselves through new financial instruments. Erturk and Solari (2007) claimed that the complexity of banking sector activities necessitate an elaboration of the sector that goes beyond the mainstream analysis. In this framework, banks should be analysed as capitalist enterprises in which their banker decisions

are determined by their intent on earning the largest profits. Although Erturk and Solari's approach provided valuable insights, one point should be clarified. Certainly, considering the complexity of banking sector activities and evaluating banks as capitalist enterprises offers opportunities to understand the transformation of banking in the contemporary era. Nevertheless, it does not go beyond mainstream banking theory in its evaluation of the transformation of banking sector activities. An accurate understanding of the activities in the banking sector necessitates contextualizing the reason for the change in real sector developments and the capital accumulation process. As such, specific political, historical and social factors that shape the relationship between the financial system and industrial sector are of critical importance to an analysis of the banking sector (Aybar & Lapavitsas, 2001). The basis of such an analysis can be found in the Marxist political economy approach to the banking sector, as will be discussed in this chapter.

2.2.2 Consumer Credit in Mainstream Theory

As with banking in general, analysis of consumer credit has been dominated by the information theoretic approach. Imperfect information and the resulting adverse selection and moral hazard flaws are seen as the reasons for failure of consumer credit markets (Bertola et al., 2006). Consumer credit is explained from a microeconomic perspective by taking utility maximisation behaviour as the starting point. This is an inadequate understanding of consumer credit. Household borrowing is perceived as optimal and normal (see Bertola et al., 2006) without considering the specific social and historical circumstances under which it takes place. In this sense, it fails to recognize the problematic aspects of the consumer credit phenomenon.

The theoretical foundation of the neoclassical approach to consumer credit is based on both the permanent income and life cycle consumption hypotheses. These theories were developed in the 1950s when consumer debt was not a major issue (Scott, 2007). At that time, linear optimisation techniques were used to analyse consumer debt. In order to model consumer debt mathematically, several assumptions were made regarding individual behaviour, such as rational choice, perfect information, and well-defined preferences (Scott, 2007). According to this approach, individuals were assumed to be the only responsible agents for the problems that arose in the credit markets.

The central idea of the permanent income hypothesis developed by Milton Friedman (1957) is that people's consumption decisions are determined not by their current income but

by their expectations regarding their future income. Thus, small changes in current income would not have a big impact on the consumption decisions of individuals. A similar idea can also be found in the life cycle hypothesis which presents a linkage between consumption patterns of individuals and their income and income expectations. According to the hypothesis, individuals smooth out fluctuations in income over their lives. They save when there is an unexpected increase in income or during their most productive working days and borrow when income is lower than expected. Hence, it is argued that young individuals, anticipating that their income will grow, borrow more while older people save for retirement.

Permanent income and life cycle consumption hypotheses were questioned when they proved to have flawed empirical findings; the findings presented little evidence for differences in savings according to changes in the income levels during a life cycle.[11] Considering the shortcomings in relation to the empirical evidence, the conventional models of consumption behaviour have been extended to include uncertainty and precautionary saving.

> The amounts borrowed may…depend importantly on uncertainty as well as on the relationship between households' impatience and lifetime income patterns. Expanding the basic model to account for the role of uncertainty makes it possible to explain why young households, for instance, borrow less than one might expect, and why individuals in risky occupations (such as the self-employed) may wish to borrow less than those in occupations with highly reliable income streams (such as, in many countries, those in the public sector) (Bertola et al., 2006, p. 7).

Although life cycle models have been modified, they still emphasize the idea that consumers attempt a consistent standard of living across their lifetimes (Cynamon & Fazzari, 2008). In this context, borrowing is seen as a response to temporary changes in income. When exposed to an adverse shock, utility-maximising individuals borrow in order to help with consumption. Hence, individuals who borrow today expect to improve their economic situation in the future. Such a line of reasoning is based on the assumption that "economic agents predict future states of the world—or at least that they understand the true probability

[11] See, for example, Deaton (1987, p. 121), who drew on "aggregate time series data from the United States…suggest[ing] that simple representative models of life cycle are unlikely to be very helpful, at least without substantial modifications". For a more recent study in a similar vein, see Dynan et al. (2004, p. 435), in which they provided evidence on the inconsistency of the "life cycle explanation based on difference in the timing of income".

distributions from which those states are drawn" (Cynamon & Fazzari, 2008, p. 1). However, in reality, choices are complex and context-specific, so it is not reasonable to assume that they can be expressed in terms of mathematical formulations.

Apart from drawing attention to the importance of including precautionary behaviour and uncertainty with the recent rise in consumer debt and its related problems, there has been a rise in mainstream studies placing concepts of asymmetric information and market failures in the centre of their analyses of consumer credit.[12] The idea is that not only demand-side but also supply-side factors matter. It is argued that "lenders to consumption smoothing households face many of the same problems as lenders to producers" (Bertola et al., 2006, p. 12). Like credit offered to firms, credit offered to consumers is also restricted by moral hazard and adverse selection. In the consumer case, adverse selection might be due to:

> Standard project risk, since there may be entrepreneurial activity financed with "consumption" loans, and/or it could be due to employment or household instability (e.g., higher likelihood to incur shocks to job, marital, and health status), relatively poor access to family or community resources, or general dishonesty. (Karlan & Zinman, 2005, p. 18)

Again for consumer credit, the moral hazard problem related to the consumers' ability to pay off credit might be "the borrower's effort to retain or obtain employment, to tap alternative sources of cash in the event of a bad shock, or to manage consumption in order to retain sufficient funds for loan repayment" (Karlan & Zinman, 2005, p. 19). However, moral hazard might also arise due to the consumers' unwillingness to repay (Bertola et al., 2006). In that case, weighing the gains and losses, a borrower might decide to default on debt even though having the ability to repay (Bertola et al., 2006). Hence, there are several factors that lenders need to consider regarding credit repayment, which may lead them to restrict credit.

According to this line of reasoning, the life cycle model implies that individuals could smooth their lifetime consumption even when facing temporary budget constraints, provided that they do not become credit constrained. However, the potential problems of asymmetric information in the financial markets may lead to market failures such as credit rationing. Under these conditions, liquidity constraints prevent individuals from following an optimal plan of debt and consumption. In this respect, financial liberalisation over the past couple of

[12] See Ausubel (1999) for a discussion of the problem of disentangling adverse selection and moral hazard in a consumer credit market.

decades has eased individual budgetary constraints and allowed individuals to smooth their consumption over their life cycle as the theory suggests.

> The financial liberalisation of the 1980s thus emerges as an explanation of both the rising household debt and the economic rationality of that rise: the increase in debt is consistent and cannot be considered excessive, being motivated by previously precluded utility maximising choices. In sum, according to this view, household indebtedness and the factors favourable to fostering its actual growth should be seen as sources of a maximum satisfaction of household needs and hence of the greatest possible advantage to society (Barba & Pivetti, 2008, p. 119)

Along similar lines, technological developments in the last 30 years also contribute to the easing of credit constraints. According to the mainstream understanding, as new credit reporting technologies enable lenders to distinguish between good and bad borrowers, they decide to finance borrowers at different rates according to their capability to repay.

> If lenders can distinguish between borrowers, they finance those they identify as good risks at low interest rates and the bad ones at high interest rates. If new credit reporting technologies make distinguishing between good and bad credit risks easier at the micro level, credit should have become more accessible. (Cynamon & Fazzari, 2010, p. 8)

Such analyses of consumer credit lead to an understanding of the phenomenon as autonomous from broader social relations. Even if extensions to the theory acknowledge the social dimensions of consumer behaviour, they do so by sticking on the assumption of rational choice (see Fine & Milonakis, 2009b). However, an accurate understanding of consumer behaviour needs to consider that preferences are socially constructed (Cynamon & Fazzarri, 2010). The easy availability of credit cannot be seen simply as a relaxation of constraints on rational borrowers who want to borrow more based on their cost benefit calculations. One needs to consider, for instance, how the new institutional environment encourages people to borrow more as they observe that others borrow more. As Cynamon and Fazzari (2010, p. 2) put it, “changing social norms made it seem *normal* to consume more (as opposed to *desirable* to spend more—which is always the case) as well as *normal* to borrow in order to finance that consumption (which was certainly not always the case)”. The

preferences of individuals are not only based on economic calculations of the self-interest agents as the neoclassical theory puts forward. Therefore, it is inaccurate to assume that economic agents can predict the future by assigning identifiable and measurable probabilities.

Furthermore, an accurate understanding of the theory of choice needs to consider the dialectic relation between people and their institutional environment (Crotty, 1994). The mainstream theory not only ignores social content of consumer credit but also fails to account for the socioeconomic and historical contexts that condition borrowing decisions. The argument of this study, which will be elaborated in the following sections, is that the recent rise in household debt needs to be analysed against the background of the real and financial sector developments. In this respect, this study pays particular attention to the systemic macroeconomic conditions of the contemporary era. The last three decades have been characterised by changes in wages (whether they stagnate, decrease, or increase) which have not kept pace with increases in productivity (Barba & Pivetti, 2009; Glyn, 2007). Moreover, the withdrawal of the state from providing public goods has added to the deterioration of financial situations for wage earners worldwide. Changes in labour market conditions in terms of increased flexibility and precariousness have increased the uncertainty that wage earners face. As opposed to the life cycle theory, wage earners throughout the 2000s have faced persistent changes in their income. When the underlying structure is flawed, it is not possible to analyse borrowing as a choice made to smooth consumption in response to temporary changes in income. As put forth by Cynamon and Fazzari (2010, p. 2), "in a world of uncertainty, borrowing did not necessarily correspond to a careful plan for repayment consistent with forward-looking intertemporal budget constraints and a full understanding of the systemic implications of the new modes of behaviour". In sum, the causes and implications of borrowing decisions are complex and depend heavily on changing socioeconomic contexts.

2.3 A Political Economy Approach to Banking and Consumer Credit

2.3.1 Marxian Theory of Finance

According to the Marxian perspective, the banking sector emerged in response to the needs of capitalist production. In this framework, banks are analysed in the context of credit relations. In order to have an accurate understanding of credit relations and banking in the Marxist framework, it is useful first to introduce the concept of money in relation to the value of labour theory. This analysis provides a coherent foundation for the social relationships

inherent to money, credit, and banking. Enabling accumulation and becoming capital, money plays a particular role in the reproduction of capitalist relations.

2.3.1.1 Money

In Marx's analysis, money is neither a "veil" nor a "real material content" contained in commodity relations (Arthur, 2005, p. 111), but rather a form essential to the value relations. This understanding of money, as a form of value, lies at the heart of Marx's theory of money and is grounded in the theory of labour value. According to Marx, the emergence of money was a mystery that could be resolved by examining the form of value in which value appeared (Meek, 1973).

> Now however, we have to perform a task never even attempted by bourgeoisie economists. That is we have to show the origin of this money-form, we have to trace the development of the expression of value contained in value-relation of commodities from its simplest, almost imperceptible outline to the dazzling money-form. When this has been done, the mystery of money will immediately disappear. (Marx, 1976, p. 139)

It is only when the value relations between commodities is understood that the mystery of money can be solved. Commodity has dual characteristics: as use value and exchange value. It is the contradiction between these values which necessitates money, and the introduction of money could be seen as an attempt to mediate between two forms of values.

Use values are means for the satisfaction of particular human needs and wants. Use value has qualitative aspects, and it appears as independent of the amount of labour required to produce that value. Nevertheless, "they are also the material bearers of exchange value" (Marx, 1976, p. 126). Exchange value "appears first of all as the quantitative relation, the proportion, in which use-values of one kind exchange for use-values of another kind, a relationship which constantly changes in accordance with time and space" (Marx, 1976, p. 126). Commodity cannot be exchanged unless it has a use value because no one will exchange a product that has no use; in other words, that does not satisfy a human want or need.

The contradiction between use and exchange values arises from the fact that a product can only be exchanged if its use value, or qualitative nature, does not matter to the seller. This

is because commodities as use values are particular. They are "heterogeneous, imperfectly divisible and complex" (Lapavitsas, 2003, p. 55). Conversely, commodities as values are general and "homogenous, perfectly divisible and simple" (Lapavitsas, 2003, p. 54). Thus in order to be exchanged, use and exchange values of a commodity appear as two different aspects even though they are inherit in the same product.

The exchange process embraces the solution to this contradiction but it can only be realised if the exchange value of a commodity is represented by another commodity that is money.[13] According to this line of reasoning, in Marx's analysis, money is a general expression of exchangeability, disconnected from the "particularity of any use value" (Foley, 1983, p. 5). Its use value demonstrates a specific social status (de Brunhoff & Foley, 2006) and takes an independent form.

At this point, it should be noted that Marx's main concern was to analyse the capitalist mode of production and that he situated his theory of money within this framework. As Weeks (1981) notes, while money appears before capitalism, seeking a general theory of money applicable to all modes of production ignore the social relations of production that determine the exchange. The distinction that Marx makes between the "form" and "substance" of value is important in understanding his conceptualization of money within the capitalist system (Itoh & Lapavitsas, 1999, p. 34). Briefly, the substance of value is abstract human labour crystallized in commodities (Itoh & Lapavitsas, 1999). To Marx, abstract labour reflects "the characteristic they [different kinds of labour] have in common that of being the expenditure of human labour power, of human labour in abstract" (Marx, 1976, p. 166). It is different from concrete labour which is heterogeneous. Use values are produced by qualitatively different kinds of concrete labour. The labour expended in production is concrete labour, which is converted to abstract labour in the process of exchange (Weeks, 1990).[14]

Abstract labour is a "substance" (of divisible and homogeneous labour) that takes "form" in the process of exchange. In a commodities-producing society, there needs to be a

[13] Note that Lapavitsas (2005) stated when the emergence of money is shown to be a result of a contradiction between use value and value as abstract labour, it does not go beyond an analysis of the emergence of capitalist money. Moreover, this approach does not shed light on the economic and social mechanisms through which abstract value achieve an independent form in the commodity exchange. Based upon this reasoning, Lapavitsas (2005) provided an alternative analysis based on the Marx's analysis of the forms of value and examined money as monopolist ability to buy. This study does not go into detail of this alternative analysis because the approaches presented in this study provide enough insights into an understanding of the existence of money in a capitalist economy, for our purpose.

[14] See Weeks (1990) for a discussion of different interpretations on the way in which heterogeneous concrete labour is transformed into abstract labour.

commodity which represents the substance (abstract labour). That commodity is money. The uniqueness of Marx's analysis of money is that he situated money in his theory of abstract labour and social relations of production. This approach enabled one to see the social nature of money as related to the social relations of production, exploitation, and appropriation of surplus value under capitalism (Mandel, 1976).

2.3.1.2 The Functions of Money

Marx outlines different functions of money in a capitalist society as (1) the measure of value, (2) the means of exchange, and (3) money as money. His treatment of the functions of money denotes the role money plays in the organization of social relations in the capitalist mode of production. As he expressed it, the functions of money represent the different stages in production relations: "If we go on to consider money, its existence implies that a definite stage in the development of commodity exchange has been reached. The various forms of money…indicate very different levels of the process of social production, according to the extent and relative preponderance of one function or the other" (Marx, 1976, pp. 2, 74).

Dealing with money in a developed capitalist system, he identified different functions of money in the following way. In the first function, money, as a measure of value, serves as the measurement value of a commodity against the value of all other commodities. This function is related to the previous discussion on the relation between abstract labour and money. On this point, Marx (1976) argued:

> Because all commodities, as values, are objectified human labour, and therefore in themselves commensurable, their values can be communally measured in one and the same specific commodity, and this commodity can be converted into the common measure of their values, that is, into money (p. 188).

This function of money enables set prices for commodities. The second function of money, as a medium of exchange, serves to facilitate the exchange of commodities. Conventional economic theories mainly emphasize this role of money, regarding it as simply a facilitator of exchange. However, money is more than that; it possesses some peculiar properties (Harvey, 2006). This can be understood by analysing the last function of money which is "money as money". This reveals money's peculiar characteristics by implying the social relations that money involves: as a means of payment, as world money, and as a store of value (de Brunhoff & Foley, 2006).

Money as a means of payment implies that money is used to pay the settlements of promises. Hence, it provides a basis for the foundation of the capitalist credit system. Money as world money facilitates international payments as it is independent of the characteristics of national economies. Money as a store of value (hoard) implies social power.[15] As argued by Itoh and Lapavitsas (1999), hoards of money emerged spontaneously during the course of capitalist accumulation for a variety of reasons, which are essential to understanding the capitalist credit system and the circuit of capital, discussed below.

2.3.1.3 Transformation of Money into Capital and the Credit System

A Marxist analysis of money is crucial to understanding capital. Though money itself cannot create capitalist social relations, it is impossible to have capital without money (de Brunhoff & Foley, 2006, p. 195). How money is transferred into capital can be understood through an analysis of Marx's illustration of the circuit of money capital. The formula is:

M-C (LP & MP)…P…C'-M' (M+ΔM)

This circuit consists of three stages (Marx, 1978, p. 109). It begins with the industrial capitalist's appearance on the market as a buyer of labour power and means of production. Second, the production stage occurs, resulting in commodities that have greater value than the combined value of labour power and means of production. In the third stage, the produced commodities are sold in the market and, hence, are transformed into money: M' (M+ΔM). Throughout the process, plain money becomes money capital. The distinctiveness of Marx's analysis lies in its showing how the self-expansion of money in this process represents the extraction of surplus value produced in the operation of capital. It is important to highlight that this process is not related to the nature of money but to the existence of the class relation that can transform money into capital.

> Money can be spent in this form only because labour power is found in a state of separation from its means of production (including the means of subsistence as means of production of labour-power itself); and because this separation is abolished only through the sale of labour-power to the owner of the means of production, a sale

[15] In this sense, money is never neutral, as argued in the neoclassical analysis, where money is perceived simply as a means of exchange.

> which signifies that the buyer is now in control of the continuous flow of labour-power, a flow which by no means has to stop when the amount of labour necessary to reproduce the price of labour-power has been performed. The capital relation arises only in the production process because it exists implicitly in the act of circulation, in the basically different economic conditions in which buyer and seller confront one another, in their class relation. (Marx, 1978 p. 115)

Historically, primitive accumulation set the conditions for the emergence of the capitalist mode of production.[16] Formation of the proletariat class, which was constrained to sell its labour for subsistence, is a crucial aspect of the process. In the absence of wage labour, money could not be converted into capital (Harvey, 2006). However, it should be added that although wage labour is necessary, it is not a sufficient condition for the process. Capitalists must advance a certain amount of money to buy labour power as well as means of production. Hence, capitalists must hoard enough money to enter into production. The formation of hoards is a process that occurs throughout turnover of capital. Idle funds emerge in the throughout the process for several reasons, as identified by Itoh and Lapavitsas (1999). These include the maintenance of precautionary funds to meet unforeseen expenditures and for the depreciation of fixed capital, and reserves to keep production and circulation at the same time (Itoh & Lapavitsas, 1999). [17]

According to Marx, money hoards emerge regularly in the course of the turnover of capital, and they form the basis for the capitalist credit system. There is no reason to think that individual capitalist entrepreneurs always have sufficient funds to start a circuit of capital (de Brunhoff & Foley, 2006). An entrepreneur may acquire the necessary funds by borrowing. The emergence of hoards during the capital circuit, hoards which can be lended creates the necessity of a credit system.[18] The credit system mobilizes the pools of idle money, transforming them into interest-bearing capital and redirecting them into capital accumulation (Lapavitsas, 1997). Interest-bearing capital is an essential form of the capitalist mode of production (Marx, 1981, p. 735). What distinguishes it from the usurer's capital is

[16] Marx analysed primitive accumulation in the context of transition from feudalism to capitalism at the end of the first volume of *Capital* (1976). Later, the work of Dobb (1963) became one of the seminal studies on the issue.

[17] Other economists also introduced a heterodox theory of money and hoarding. For instance, Keynes's theory of liquidity preferences offers an analysis of the formation of money hoards (de Brunhoff & Foley, 2006). Nevertheless Marx had a distinguished understanding of the phenomenon; only his analysis treats capital as a social relation and puts it at the heart of the matter.

[18] Here, we are only concerned with the credit in capitalist economy arising from exchanges between capitalists. Consumer credit will be analysed in subsequent sections.

"the changed conditions under which it functions and hence also the totally transformed figure of the borrower who confronts the money-dealer" (Marx, 1981, p. 735). In the capitalist mode of production, credit is expanded with the expectation that a borrower will act as a capitalist and use the borrowed money to appropriate unpaid labour.

This is different from lending in a pre-capitalist society where master craftsmen, petty producers, and peasants are driven into debt because access to the means of subsistence depends on money.[19] In such a context, "entire surplus over and above the surplus value could be appropriated by usury" (de Brunhoff, 1998, p. 181). On the basis of such considerations, Marx stated that it is absurd to compare the level of usurer's interest "with the level of modern interest rates, where interest, at least the normal interest, forms only one part of this surplus value" (Marx, 1981, p. 730).[20] For Marx, the determination of the rate of interest was ultimately based on the social relations between borrowing and lending capitalists. This relation between banks and industrial capitalists differs in important ways from the relation between banks and workers, as highlighted in the discussion on the analyses of consumer credit.

2.3.1.4 Banks

In Marx, banks are treated as a type of merchant capital which operates in the sphere of circulation (Lapavitsas, 2003). Merchant capital does not have a direct role in the labour process, so it does not generate surplus value as with industrial capital. It has its own peculiarities. Given that it does not generate profit, merchant capital profit is driven by the lending of money with interest rates or by engaging in its exchange. In his analysis of merchant capital, Marx made a distinction between commercial and money-dealing capital (Fine, 1985-1986). While commercial capital mediates the exchange of commodities, money capital handles the flow and hoards of money. These two forms of merchants' capital became specialised activities of particular capitalists with the development of capitalist production, creating a division of labour among them (Fine, 1985-1986). In this context, money dealers

[19] This form of lending still prevails in capitalist mode of production and becomes more relevant in the age of financialisation, as will be elaborated when an analysis of the consumer credit from a political economic perspective is discussed.

[20] Interest in the capitalist mode of production is the exchange value of the interest-bearing capital. Unlike other commodities, the exchange value of interest-bearing capital cannot be determined from the social necessary time required for its production but by the forces of supply and demand (Harris, 1976). There is no natural rate of interest in Marxist analysis. Interest payments represent a distribution of surplus value among capitalists. "Since interest is a part of profit, a part which we have assumed the industrial capitalist has to pay to the money capitalist, the maximum limit of interest would seem to be the profit itself" (Marx, 1981, p. 480). There is an extensive literature on the determination of interest rate in the Marxist literature but the issue goes beyond the scope of this paper.

specialise in activities such as paying and receiving money, settling balances, keeping current accounts, storing money, and so on (Marx, 1981). This specialisation requires certain futures which make money dealers more likely to undertake banking activities.

> Their [money dealers] normal business affords them knowledge of the relations of trust and power that sustain several particular commercial bills. To transmit money abroad or to convert money from one denomination into another and even to store money, money dealers must constantly handle commercial bills. It is inevitable that they acquire information about the regularity of payments, the attitude toward commercial obligations, the frequency of transactions and access to money of many other capitalists, despite having no direct connection with the bill issuer's productive activities. Thus money-dealers have relative advantages in assessing the creditworthiness of particular bills offered for sale. (Lapavitsas, 2003, p. 78)

Such an analysis into the emergence of bank capitalists enables the building of a comprehensive analysis of banks from a Marxist approach. This is possible because the analysis offers insights into the functioning of banks as money-dealing enterprises, as opposed to treating them only as financial intermediaries, as is the case with neoclassical analyses (Lapavitsas & Dos Santos, 2009). Banks still perform money-dealing activities in the modern era because they are involved with domestic and international money transfers and foreign exchange transactions, manage bank accounts, and so on (Lapavitsas, 2007).

Historically, the role of money dealers expanded as they acquired greater specialization in transacting interest-bearing capital. Through this expansion, money dealers became banking capitalists in the modern sense. Lapavitsas (2003) examined credit relations in a capitalist society by comparing two forms of it, namely, commercial and banking credit. The borrower–lender relationship inherent in bank credit is different from the one that characterizes commercial credit. Commercial credit spontaneously emerges among capitalists as commodities are sold against promises to pay. However, bank credit involves advancing money capital to start an industrial circuit. In doing so, banks do not only rely on their own capital but centralize hoards of money which are idle, from other capitalists and classes (Fine, 1985-1986). They transform these idle hoards of money into interest-bearing capital and lend it to industrial capitalists to start or expand operations of capital. In this sense, interest-bearing capital does not appear as a form of total capital of the individual agents that own it but as a social form.

> On top of this, with the development of large-scale industry, money capital emerges more and more, in so far as it appears on the market, as not represented by the individual capitalist, the properietor of this or that fraction of the mass of capital on the market, but rather as a concentrated and organised mass, placed under the control of the bankers as representatives of the social capital in a quite different manner to real production. (Marx, 1981, p. 491)

Hence, capitalists as borrowers not only receive the banker's own capital for use in production but also the idle money of others. In this way, banks accelerate the turnover of capital and then claim a part of the profit of industrial capitalists in the form of interest.

The functioning of such a mechanism necessitates determining the creditworthiness of the prospective borrowers. On the one hand, there are industrial capitalists who engage in production and seek others' funds for investment. On the other hand, there are banking capitalists who advance loanable money capital. The former lacks the skills to check the quality of promises made by a variety of enterprises in different sectors. However, banks have specialist skills in collecting and evaluating information regarding the promises to pay across different enterprises. The relationships established between borrowers and lenders pose a number of issues—political, social, and economic—under which the parties involved with the transaction operate. Such an analysis of bank relations goes beyond the information theoretic approach, which particularly focuses on the information asymmetry between borrower and lender. Conversely, it underlines the importance of broader socioeconomic factors inherent in lender–borrower relations. While the confidence of one enterprise's ability to pay depends on its capacity to generate surplus value and its access to money, the banks' ability to pay promises is a more complex issue. This is related to banks' dependence on promises made by a broad scope of industrial enterprises and on the quality of their assets. As Lapavitsas (2003) put forward:

> By constructing a set of assets a bank can bring together a variety of fields of trust and power across several industrial sectors that act as a foundation for trust in the bank's promises to pay. The particular and private trust between capitalists across a broad swathe of industry is subsumed under the bank's own promise to pay. Thus the trust between a bank and a capitalist who accept the banks liabilities rests on broader and more strongly social foundations than trust between two industrial capitalists. (p. 80)

Establishing confidence in assessing prospective borrowers' ability to pay is conditioned on the political, social, and economic positions of both banking and industrial capitalists in the division of labour. Non-economic factors such as property links, political and social connections, and familial relations are also determinants of the credit relations between lender and borrower. These factors play an important role for both industrial and bank capitalists in forming credit relations. While for the former, these noneconomic factors could imply a guarantee of the promise of payment, for the latter they might build confidence in the eyes of borrowers in assessing the creditworthiness of the bank operations.

This framework can also be used to understand the increase in consumer lending in the contemporary era. The noneconomic, as well as economic, factors have an impact on the relationship between consumers and banks, affecting the availability and terms of credit, as elaborated in the next section.

2.3.2 A Marxist Framework for Evaluating Consumer Credit

This study draws attention to consumer credit as a complex area of inquiry and that an analysis of how it is integrated into the daily lives of individuals necessitates taking several factors into account. To have an accurate understanding of the phenomenon, one needs to move beyond the neoclassical understanding of consumer preference based on aggregated rational individual behaviour. Consumer behaviour needs to be analysed by considering economic and political conditions, social norms, cultural trends, and institutional structures. Only by drawing these different aspects together can new insights be gained into the social content of consumer credit. Moreover, only such a comprehensive analysis can provide the foundation for an understanding of how borrowing has become integral to the daily lives of wage earners.

This section builds a theoretical framework to understand consumer credit, and it benefits from the Marxist political economy approach. As discussed in section 2.3.1, money and credit are analysed with reference to social relations inherent to them in the Marxist approach. Credit, in relation to money's function as a means of payment, expresses these relations. This study argues that in the political economy literature, the social content of credit relations is mostly analysed in the context of internal mobilization of idle money between capitalists (Itoh & Lapavitsas, 1999; Lapavitsas, 2003). This analysis needs to be broadened to include the social content of consumer credit.

To date, there has not been a comprehensive analysis of consumer credit from a Marxist approach. Marx himself did not examine consumer credit explicitly in his writings. There are two main reasons for this. First, his main concern was a general analysis of the capitalist mode of production. In this context, he prioritised an examination of lending and borrowing within different fractions of capital (Harris, 1976). Second, until the mid-20th century, consumer credit was negligible. Although there was consumer credit in the 19th century, it was available mostly to the middle and upper classes. Their involvement in the credit system was primarily considered in relation to accumulation of their savings in financial institutions in return for interest payments. The form of borrowing for the poor was usury, as characterised by the appropriation of incomes of the poor by moneylenders. Marx did mention this kind of borrowing, but was mainly referring to the practice of pawn broking in England which was common at the time of his writing.

This study argues that although Marx did not examine consumer credit explicitly, important insights can be derived from his approach. This, however, necessitates going beyond a pure economic determinist approach to Marxism. In reality, understanding Marx's analysis only as economic determinism/reductionism is misleading. Marx's main intention was to reveal the interaction between the economic and non-economic factors in aggregated social relations (Sweezy, 1970). In the Marxist framework, a social phenomenon is treated as a part of the totality, as the product of social and economic relations. This methodological approach provides a framework to conceptualise consumer credit not just as an economic category but as embedded in a set of social relations. More specifically, a Marxist analysis enables us to see how social relations, in part, determine the increased use of consumer credit. Furthermore, Marx's writings on predatory lending give insights into an examination of consumer credit in the modern capitalist economy, as elaborated in Chapter 3.

Consumer credit is a claim on future income and its repayment depends on the potential of labour to produce future value. To understand this, one needs to consider the contradictory relationship between capital and labour in a capitalist economy. Capitalism is based on one class—capitalists—owning the means of production and another class—workers lacking these means. Lacking the means of production, workers are obliged to sell their labour power that is the ability to work, in return for wages. There is a unique role of labour power in Marxian analyses because it is the only commodity that can produce more than what is required to produce and reproduce it. Appropriation of surplus value is the key feature of the capitalist system which provides capitalists with the opportunity of expanding capital. What labour produces in the process of production is divided between surplus value

and the value that paid for the labour power. The determination of the value of labour power is a complex area of inquiry that is hotly debated in the literature, to which I now turn. The key point in analysing the value of labour power within the scope of this dissertation is to show that the production and reproduction of labour power is not determined by purely capitalistic relations. There is the role of the state, civil society, and, particularly, households in the reproduction of labour power, and the contributions of each historically change. The important thing is that the non-capitalistic dimensions of the reproduction of labour power create room for the partial appropriation of wages, as will be discussed further in the remainder of this section.

In Marx, labour power is treated like any other commodity that is bought and sold in the market. Based on this line of reasoning, the value of labour power is assumed to be determined in the same manner as all other commodities: "by the labour-time necessary for the production and consequently also the reproduction, of this specific article" (Marx, 1976, p. 274). In other words, under this assumption, the value of labour power is determined by the value of a bundle of goods required for its reproduction. However, there are difficulties in "the application of the labour theory of value to commodity labour power" (Meek, 1973, p. 184) because labour power has some peculiar characteristics. First, as Marx himself stated, unlike in the case of other commodities, there enters "a historical and moral element" into the determination of the value of labour power (Marx, 1976, p. 275). In this sense, a labourer's means of subsistence varies according to "the climatic and other physical peculiarities of his country" and depends on "the level of civilization attained by a county; in particular they depend on the conditions in which, and consequently on the habits and expectations with which, the class of free workers has been formed" (Marx, 1976, p. 275). This implies that the value of labour power can only be understood in relation to its specific historical and social conditions. However, Marx also said that, "in a given country at a given period, the average amount of the means of subsistence necessary for the worker is known datum" (Marx, 1976, p. 275).

Second, there are unpaid resources which enter into the value of labour power, something that is not considered in Marx's analysis. In Marx's analysis, the reproduction of labour is presumed simply to be dependent on the purchase of commodities such as bread and cloth. From this point of view, a link can be made between the value of labour power (bundle of use values for the survivor of labour) and wages (exchange value of commodities within that bundle), as the former would be equal to the latter (Harvey, 2006). However, this analysis does not shed light on the complex relationship between the value of labour power

and the social reproduction of the labour force. There is the fact that not all of the use values necessary for the reproduction of the labour force are provided as commodities. As Fine (1998) states:

> The value of labour power as such, only provides one necessary condition for the reproduction of labourer–the payment of wage. In principle, this secures, at least in part, the material reproduction of the work-force through the consumption that it allows. But even this primarily takes place outside the direct control for the capitalist employer in social relations which are separate, if not detached, from the accumulation and circulation of capital. In short, even if the value of labour power does support the reproduction of the labourer, there are other social relations which are essential for this to occur which are not directly or primarily economic—those through civil society, the state and the household. (p. 187)

The key fact here is that labour power is not produced capitalistically but within the family.[21] In this context, the essential point to consider is the role of domestic labour such as cooking, cleaning, and child care which are fundamental to the reproduction of the labour force.[22] Domestic labour "is a whole sector of production central to, but existing entirely outside, capitalist relation of production" (Himmelweit & Mohun, 1977, p. 15). Although domestic labour has a crucial role in the determining the value of labour power, it is unpaid and therefore not included in the price of the value of labour power, or in other words, wages. On that basis, seeing the value of labour power as entirely determined by the exchange of commodities in the market is problematic. It would be more realistic to understand the "commodity producing" labour time necessary to reproduce the family as the determinant of the average level of household income rather than as the determinant of the value of labour power (Himmelweit, 1991). According to Wells (1992), the total cost of the reproduction of labour power can be thought of as the money cost of reproduction of labour power, including the value of those commodities purchased to sustain it, plus the unwaged household labour.

The money cost of reproducing labour power is related to the patterns and nature of consumption, which, because they are socially constructed, need to be analysed in historical

[21]"It (labour power) is produced by a social process in which the working class family has had and still has a fundamental role to play in the context of social institutions and cultural traditions which may be influenced by the bourgeoisie and hedged around by all manner of State interventions but which in the final analysis are always within the domain of working class life" (Harvey, 2006, p. 163).

[22] For an in-depth discussion of domestic labour in relation to the value of labour power, see Dunn (2011), Himmelweit & Mohun (1977), and Vogel (2000).

contexts.[23] This necessitates acknowledging the different forms that consumption takes in different modes of production. A distinguishing key aspect of consumption under capitalism is that it has become detached from the production process. This is different from consumption under slavery, for instance, where workers' consumption is indistinguishable from other inputs to production (Fine, 2002). This point can be better understood by considering the distinction Marx (1976) made between productive and individual consumption. The former includes consumption of means of production and capitalists' consumption of use value of labour power. The latter refers to the consumptions of the worker for himself. Individual consumption under capitalism lies outside the process of production and therefore is not tied to the internal logic of capital. As such, it can be argued that the separation of workers' labour from the final product and the increased commodification of goods paradoxically provide workers with the freedom to choose among available consumption goods. As Fine (2002, p. 66) puts forward, under capitalism consumption has "a simple and undifferentiated relation to economic agents as purchasers", although this does not mean that such class relations in their broader context are irrelevant to consumption. In other words, consumption ultimately depends on income level; however, there is no given consumption patterns attached to class positions. This point has become more apparent with the rise of mass consumerism, starting in the 19th century. With greater consumerism, the necessary base for the social reproduction of labour has widened as the consumption of goods and services become more available, conditioned by the different socio-cultural and economic processes that create these goods and services.

Before returning to the analysis of consumer credit, it is important for clarity to point out another distinguishing characteristic of labour power. Unlike other commodities, labour power is not produced first and exchanged later. "In order to be sold as a commodity in the market, labour must at all events exist before it is sold" (Marx, 1976, p. 677). It is not reasonable to assume that labour power will be bought and sold at its value, like other commodities. Marx admitted that wages and the value of labour power are not always equal. There might be occasions when wages are higher than the value of labour power. However, there are economic forces (such as unemployment) "which are sufficiently powerful, if not to keep the price of labour power constantly in conformity with its value, at least to keep it (the

[23] Marx is often criticised for making little significant contribution to our understanding of consumption in a capitalist society. The main reasons given for this are his prioritisation of (1) production over consumption and (2) exchange value over use value. For a critical discussion of these views, see Fine (2002) and Fine and Leopold (1993).

labour power) rising so far above its value as to absorb the whole of the surplus" (Meek, 1973, p. 185). According to Marx (1976):

> As soon as this diminution touches the point at which the surplus value that nourishes the capital is no longer supplied in normal quantity, a reaction sets in: a smaller part of revenue is capitalized, accumulation slows down, and the rising movement of wages comes up against an obstacle. The rise in wages therefore confined within the limits that not only leave intact the foundations of capitalist system, but also secure its reproduction on an increasing scale. (p. 771)

Marx's argument is that although wages might rise above the value of labour power, there is a limit to the amount enforced by the nature of the capitalist production. Furthermore, Marx argues that there is a general tendency for a downward movement of wages towards the value of labour power resulting from the decline in the demand for labour and the secular increase in the organic composition of capital (the ratio of constant capital to variable capital, in other words, the ratio of capital invested in plant, equipment, and raw materials to capital invested in the purchase of labour power) (Meek, 1973).

Based on this analysis of the value of labour power, how can one conceptualise the interest payment on consumer credit? It can be argued that consumer credit has an influence on the standard of living. As Bryan et al. (2009, p. 463) wrote, "interest commitment occurs independent of the receipt of wages, [and] the household's standard of living is determined by the extent of the wage residual". Workers can buy in excess of their means by using credit. However, then future wages must be used to make interest payments. The interest charged on consumer credit lent to workers thus represents partial appropriation of the wages paid to the labour power. This analysis above regarding the value of labour power allows us to see how it is possible to appropriate a part of wages even if the wages are equal to the value of labour power (related to the forces which drive wages down). It is the existence of non-commodified goods and services entering into the value of labour power that makes this possible. If workers take care of their own and their families' reproduction to some extent, there is room for wages to become lower than the value of labour power. In other words, workers and their

families can compensate for a reduction in the value of wages by working harder at home (Dunn, 2011).[24]

The interest on the money borrowed by wage earners is not as easily followed as the interest on the money borrowed by industrial capitalists. The source of interest owed on wage earners' consumer credit can be understood by considering the nature of the relationship between lenders and wage earners, which is fundamentally different than between lenders and capitalists, as argued by Dos Santos (2009). Borrowing enables capitalists to shorten the turnover of capital and gives them access to money for expanding production. Hence, capitalists borrow money and put it to use as capital. They then recover the money by selling the commodities produced and pay interest out of the value that is generated during the course of production. In the case of borrowing by wage earners, the borrowed money is used for consumption and, hence, not used in a way that generates value. The debt accumulated is on future income and the interest on it comes from wages, not surplus value. In other words, when workers pay interest for consumer credit, a share of wages is paid back to the capitalists.

This form of lending to workers has an exploitative feature. Insights on this argument can be driven by considering Marx's writings on usury in pre-capitalist relations, which resembles borrowing by non-capitalists in the modern credit system. In pre-capitalist societies, moneylenders lent money with interest to small-scale producers, including peasants and artisans who had access to means of production and used their own labour. These moneylenders were called usurers. A usurer's capital is a form of interest-bearing capital and used as a means of payment, not as capital. "Yet the proper, principal and specific terrain of usury is still the function of money as a means of payment. Any monetary obligation — rent, interest, tribute, tax, etc. — that falls due at a certain date brings with it the need for a payment" (Marx, 1981, p. 734).

A typical feature of usurer's capital is the exceptionally high interest rates charged on loans. In pre-capitalist societies, usury functioned in a way that drew producers heavily into debt and deprived them of the means necessary for their reproduction. In this way, usurers played a role in impoverishing the pre-capitalist mode of production and destroying productive forces. As usury had a potential of separating the producers from the means of

[24] Along a similar line, Bryan et al. (2009) stated that the interest payment on consumer credit can be seen as appropriation of surplus produced by unpaid domestic labour, though they also mention the difficulty of proving this theory.

production, it stimulated the creation of a class of proletariat with nothing to sell but its labour power.

Modern credit systems have emerged as a reaction to usury (Marx, 1981). With the rise of capitalist production, the credit systems became subordinated to the needs of capitalism. In the capitalist mode of production, interest-bearing capital is an essential element of the system, but it differs fundamentally from usurers' capital. This is because, as mentioned in section 2.3.1.3, as capitalist modes of production become dominant in a society, the conditions under which the capital functions changes, as does the characteristics of the borrower. "Even where a man without means obtains credit as an industrialist or merchant, it is given in the expectation that he will function as a capitalist, will use the capital borrowed to appropriate unpaid labour. He is given credit as a potential capitalist" (Marx, 1981, p. 735). That said, Marx (1981) draws attention to an important point by noting that interest-bearing capital retained the form of usurer's capital in certain circumstances.

> In the modern credit system, interest-bearing capital becomes adapted on the whole to the conditions of capitalist production. Usury proper not only continues to exist, but in countries of developed capitalist production it is freed from the barriers that former legislations had always placed to it. Interest-bearing capital retains the form of usurer's capital vis-à-vis persons and classes, or in conditions where borrowing in the sense appropriate to the capitalist mode of production does not and cannot occur; where borrowing results from individual need, as at the pawnshop; where borrowing is for extravagant consumption; or where the producer is a non-capitalist producer, a small peasant, artisan etc., i.e. is still the possessor of his own conditions as a direct producer. (p. 735)

As can be inferred, borrowing by noncapitalists was interpreted as a part of the social formation that remained in the capitalist mode of production. An example of this was the borrowing by workers who were divorced from their means of production and began to borrow not for production but out of personal necessity.

Hence, the nature of borrowing in the case of wage earners within the capitalist framework remains similar to borrowing from a usurer for unproductive purposes under a pre-capitalist system, and both are characterised by exploitation. A usurer's capital does not necessarily come from surplus product. "In the form of interest, [a] usurer can in this case swallow up everything in excess of the producers' most essential means of subsistence"

(Marx, 1981, p. 730). The producers may come to a point where they can no further lower their living standards. On that basis, Marx (1981, p. 732) concludes, "Usurer's capital has capital's mode of exploitation without its mode of production". Similarly, lending to wage earners in the modern era serves as a means of exploitation independent from production. It puts pressure on workers to lower their living standards. Because consumer loans are used for consumption, not production, they do not help to produce surplus from which interest can be paid. Interest on consumer credit more and more resemble pre-capitalist usury because they include a part of wages. Marx (1973) states:

> The most odious exploitation of labour still takes place in them [backwards branches of industry], without the relation of capital and labour here carrying within itself any basis whatever for the development of new forces of production, and the germ of newer historic forms. In the mode of production itself, capital still here appears materially subsumed under the individual workers or the family of workers…. What takes place is exploitation by capital without the mode of production of capital. The rate of interest appears very high, because it includes profit and even a part of wages. This form of usury, in which capital does not seize possession of production, hence is capital only formally, presupposes the predominance of pre-bourgeois forms of production; but reproduce itself again in subordinate spheres within the bourgeois economy itself (p. 853)

Lending to workers resembles secondary exploitation in Marx's terminology.[25] Secondary exploitation runs in the sphere of circulation parallel to the primary exploitation in capitalist production. The former includes the exploitation of petty commodity producers and peasants through rents, mortgages, and loans. As Marx (1981) wrote in discussing merchant's capital and interest-bearing capital in volume III of *Capital*:

> It is plain enough that the working class is swindled in this form [lending to immediate producers] too, and to an enormous extent; but it is equally exploited by the petty trader who supplies the workers with means of subsistence. This is secondary exploitation, which proceeds alongside the original exploitation that takes place directly within the production process itself (p. 745)

[25] For a further discussion, see Lapavitsas and Levina (2010).

This form of exploitation existed in pre-capitalist societies, as well as in capitalist systems. It is not unique to capitalism and, therefore, to the relationships between buyers and sellers of labour power (Smith, 1989). Marx saw it as second order of magnitude, being less important at the time he was writing as workers could buy little on credit. However, this form of borrowing and exploitation has become more significant in the contemporary era. The next chapter discusses "financial expropriation" as a characteristic of the age financialisation, with reference to the developments in the world economy that paved the way for it.

2.4 Conclusion

This chapter sought to gain insights into banking and credit relations. It presents a review of the mainstream literature on banking relations. In this regard, it pays attention to the information theoretic approach which dominated economic analysis in the last three or four decades. This review does not cover the entire literature on information-theoretic approach to banking, but presents the approach it takes to credit relations. This enables us to understand how consumer credit is conceptualised from an information theoretic point of view. The strand of literature is criticised because it developed a microeconomic analysis of credit relations by examining a representative individual who tries to makes rational choices. At issue is that it does take any social or historical contexts of these choices into consideration.

In analysing banks, the information theoretic approach examines these institutions by exclusively focusing on their role in eliminating information asymmetries and by assessing risk in intermediating financial transactions. This approach to banking is argued to be limited because it ignores the conditions of accumulation and how these social relations affect bank functioning in a given economy.

Similar limitations also exist in the analysis of consumer credit from a mainstream perspective. Consumer credit is perceived as optimal from an economic point of view. This analysis argues that the problems in the consumer credit market are consequences of information asymmetries which lead to market failures. According to this approach, financial liberalisation over the last three decades was supposed to ease budget constraints and allow individuals to even out their consumption over their life cycle. Along similar lines, technological advances in the current era are also assumed to contribute to the easing of credit constraints. This study criticises this approach to consumer credit because it lacks a

comprehensive analysis of credit relations as part of broader social relations and as they are dependent on capital accumulation process of a country under consideration.

In criticising mainstream approach, this chapter uses the Marxist political economy approach to build a coherent analysis of banking and credit relations. The argument is that it is the Marxist analysis that provides insights into an understanding of how social relationships, and developments in the forces, and relations of production partly determine banking and credit relations. This chapter suggests that the best way to understand the social context of banking and credit is to start with an analysis of money in the Marxist political economy. The important point in this approach to the banks is that it highlights how money is transformed into interest-bearing capital when banks lend it to the industrial capitalists who start or extend their operation of capital. By entering and exiting the circuit of capital, interesting-bearing capital mobilises idle hoards of money (Itoh & Lapavitsas, 1999). Interest-bearing capital is transformed into money form again over the course of the production process. By considering the class relations inherent in the circuit of money, one has an accurate understanding of banking and credit relations and related transaction problems. The Marxist analysis of banks is different from the neoclassic approach that treats banks first and foremost as financial intermediaries, while the former examines banks as specialised institutions that transform idle funds in the turnover of capital into interest-bearing capital through the credit system. It also offers insights into banks' historical emergence as money dealers.

Another distinguishing characteristic of the Marxist analysis of finance is its evaluation of lender–borrower relations through specific historical, political, socioeconomic contexts of each part of the transaction. Such an analysis goes beyond the neoclassic account of lender– borrower relations, which contextualize them with reference to information asymmetries. In the Marxist literature, lender–borrower relations are mainly examined in a discussion of credit relations between capitalists. However, this study puts forward the idea that this analysis needs to be broadened to include credit relations in the context of consumer credit. This study also emphasizes the need to conceptualise consumer credit as embedded in a set of social relationships, as in the case of credit to producers. In doing so, it draws attention to the distinguishing aspects of consumer credit by highlighting that consumer credit has an influence on standards of living. Because the reproduction of labour power entails social relations and the use of noncommodified goods and services, the situation creates room for financial institutions to extract profit directly out of wages. Interest payments on

consumer credit come out of wages, and an individual's consumption is determined by what remains after interest payments are made.

The chapter supports its argument on the exploitative nature of consumer lending by providing insights from Marx's writings on usury in pre-capitalist societies. Usurer's capital is characterised by exploitation. In a similar vein, lending to wage earners in modern society serves as a means of exploitation. Interest on loans to wage earners implies a transfer from wages. Marx makes note of this form of borrowing in the capitalist system but regards it as secondary order of magnitude. However, borrowing by wage earners has become more relevant in the last several decades. Interest rates, especially those charged on credit cards, more and more resemble pre-capitalist usury, as discussed in subsequent chapters.

Labour's exposure to debt is not new. In the late 19th and early 20th centuries, when workers faced labour market fluctuations and income instability, they borrowed from the check traders, tallymen, and the doorstep moneylenders at a considerable rate of interest (O'Connell, 2009). However, there are some peculiarities of the current era in terms of rising indebtedness, such as the range and volume of the financial instruments have dramatically increased. Yet the difference over the last three or four decades is not just that there are more ways of borrowing. It is also the change in the nature of the relationships between debtors and creditors. In order to conceptualise the meaning of consumer credit in the age of financialisation, one must take into account the social and historical contexts of credit expansion. The increasing power of capital on a global scale and the deterioration of labour conditions imply that the relationship between financial institutions and workers has become highly unequal, as discussed in section 3.5. This asymmetry of power between lender and borrower has sharpened the exploitative aspect of credit relations. Furthermore, increased debt has intensified the dependency of labour on capital. All these aspects of consumer credit are fundamental to linking the theoretical discussion with the penetration of consumer credit into the daily lives of workers. These aspects are discussed in the next chapter.

Chapter 3: Consumer Credit in the Era of Financialisation

3.1 Introduction

Major changes have occurred in the world economy over the last few decades. Finance has always played an important role in the circulation and accumulation of capital. However, in the current phase of capitalism, its role has deepened and broadened; the distinctive characteristics of the era in relation to finance have been captured by the notion of financialisation. There is a range of approaches to the concept, which makes it difficult to build a coherent definition. However, in a broad sense, the term can be defined as the dominance of financial markets, transactions, and institutions in the domestic and international spheres (Epstein, 2005). This current study argues that the term should be used not only to capture the dominant role of finance in the contemporary world, but also many transformational processes that have taken place in the world economy. The chapter does not go into a detailed account of the financialisation literature but explores the origins of the concept of financialisation and highlights its main arguments. In doing so, it aims to benefit from the financialisation literature to understand how and why finance has increasingly penetrated into the daily lives of workers. This dissertation argues that such an inquiry must consider the broader changes taking place in both the financial and nonfinancial sectors of an economy.

This dissertation aims to contribute to the literature by analysing a particular aspect of financialisation: the rise in consumer credit in the context of developing countries, with particular reference to Turkey. By acknowledging the importance of insights that the literature on financialisation offers, one point needs to be highlighted. So far, the literature has exclusively focused on the process from the point of view of Anglo-Saxon and European economies. This is very much related to the use of the term financialisation, particularly by the Marxists academics to explain the general transformation of the capitalist system. Nevertheless, financialisation can also be used to offer insights into the experiences of developing countries when considering the specific social, historical, and political factors that shape their financial systems. In this context, this chapter gives an overview of the financialisation of developing country economies. It shows that financialisation takes different forms, depends on several factors, and that various dynamics shape the financial systems of different countries and the rise of consumer credit. One of the most crucial points to consider is the way in which developing countries are integrated into the world economy.

Drawing insights from Painceira (2009), this chapter discusses the 1989 Brady Plan as the beginning of the financialisation in developing countries. This plan lies at the heart of their financial liberalisation. It is also closely linked to the introduction of financial reforms, creation of sovereign debt markets, and removal of controls on capital markets. In this sense, the Brady Plan has played a crucial role in shaping developing countries' financial systems and their integration into the global market. Banks and other financial institutions have increased their economic power since 1989, as they acquired high profits by lending developing countries' governments the funds obtained from domestic and international markets.

The rapid build-up of consumer credit in the 2000s has added a new dimension to the financialisation process of developing countries, in which banks remain the key actors. Acknowledging the forms that the financialisation of household income might take in different countries, this study particularly focuses on the changes in borrowing patterns of households in developing countries

This chapter discusses the major supply and demand side reasons behind the rise in consumer credit and debt in developing countries.[26] Supply-side factors are mostly related to the change in banking-sector activities. Since the early 2000s, there has been a shift in the focus of developing countries' banks towards the household sector as a part of their business diversification. This was witnessed in earlier and, to a greater extent, in advanced capitalist economies. This chapter discusses the peculiarities of the developing country experiences and highlights three fundamental factors behind the rising interest in consumer financing in developing countries. The first factor is related to the increased access of domestic companies to international financial markets, which has arguably reduced their reliance on domestic bank loans. The second is the impact of increasing foreign funding of banks in developing countries to finance credit expansion. The third is the rapid increase in foreign banks entering the financial sectors of developing countries.

Related to the demand-side factors, there is, on the one hand, the impact of changing macroeconomic policies of developing countries, such as a decline in interest rates, inflation and high-growth rates. On the other hand, there is the impact of the deregulation of labour markets that has brought about an increase in low-paying and insecure jobs and also

[26] Chapter 8 presents a more detailed analysis and assessment of other developments regarding the rise in consumer credit in developing countries drawing on the experience of Turkey.

intensification of work. This study argues that the rising demand for consumer credit in the current phase of capitalism is, in part, related to the changing landscape of work.

Furthermore, this chapter suggests that changes in social welfare and housing policies need to be considered in order to understand the financialisation of household income. The financialisation of household income with regard to assets such as housing, pension, and insurance has been an important phenomenon, especially in advanced capitalist countries over the last few decades. The situation is rather different in developing countries, as financialisation of personal income has been more in the form of borrowing rather than asset acquisition. Arguably, the retreat of the state from providing public goods has not led to an increase in individual assets held in pension funds, insurances, and so on, comparable to advanced economies, but to a restructuring of the welfare state affected workers by increasing their fixed-living expenses. Hence, wage earners in developing countries have been part of the financialisation process by increasing their demand for borrowing.

Section 3.3 of this chapter discusses how financial expropriation has become a characteristic of uneven lender–borrower relations between wage earners and banks in the age of financialisation. Drawing insights from Lapavitsas (2009a) and Dos Santos (2009), this dissertation argues that the deepening of this unequal relationship has created room for banks to extract profits out of wages. The rising debt of workers also has implications on capital–labour relations. This chapter argues that the steady increase in personal debt has prompted longer work hours and harder working conditions. In this sense, it has bound the workers to the disciplining power of debt.

The rest of this chapter proceeds as follows. Section 3.2 starts with a brief overview of the concept of financialisation and explains how this literature is used in this study to analyse the rise in consumer debt. Section 3.3 presents an overview of the dynamics of the financialisation of developing countries. Section 3.4 discusses the determinants in the rise of consumer credit in the last decade and focuses on three factors important in understanding the reasons behind the phenomenon: (1) transformation of the banking sector activities, (2) deregulation of labour markets, and (3) changes in the public welfare and housing policies. Special emphasis is placed on how developing countries in particular have experienced these processes. Section 3.5 elaborates on the deepening of the unequal relationship between banks and wage earners in the era of financialisation and discusses the implications of the rising indebtedness on capital–labour relations. The final section concludes with a summary.

3.2 Approaching Financialisation

This study does not seek to offer an exhaustive overview of the financialisation literature.[27] Instead, it gives a critical review of the selected core texts that shed light on the origins of the financialisation from a Marxist perspective. This study benefits from the financialisation literature because it allows a coherent analysis of the dynamics behind key aspects of the phenomenon: the rise in consumer credit and household indebtedness.

The earliest analyses of financialisation came from Magdoff and Sweezy in the 1970s. Although they did not use the term financialisation, they focused on the underlying reasons behind the increased dominance of finance beginning in the 1970s. Their main argument was that the origins of financial expansion should be traced to the rise of "monopoly capitalism", which is a concept used widely among Marxist economists to refer to the stage of capitalism that emerged at the beginning of the 20th century. The concept denotes the replacement of a competitive economy with the proliferation of monopolistic firms. Baran and Sweezy (1966) published a book titled "Monopoly Capital" that draws on insights from Marx, Kalecki, Schumpeter, and Keynes. Baran and Sweezy argued that there has been a tendency towards stagnation in the U.S. economy since the development of big monopolies in the 19th century. The tendency emerged because monopolies generated more surpluses, and as a result they began to face difficulties in finding new investment opportunities. Less investment resulted in lower economic growth. Baran and Sweezey claimed that some measures taken to overcome the stagnation included huge military spending, investments in real estate, and mass production of automobiles. These measures, however, proved to be successful only in the short-run. They did not eliminate the deep-rooted reasons of slowdowns inherit in the

[27] There is a voluminous literature on financialisation with a range of different approaches to the phenomenon. Apart from the ones mentioned in this section, some others are as follows: Crotty (2005), Stockhammer (2004), Dumenil and Levy (2004) and Orhangazi (2008), for example, looked at this phenomenon from a macroeconomic point of view and analysed the impacts of financialisation on capital accumulation. Basing their arguments on empirical findings for developed economies, they used this concept to capture the impacts of current rise in financial investments and financial income on capital accumulation. The social accounting school, which emerged in the late 1990s, developed the concept of "coupon pool capitalism" to identify the changes in the economy during the era of financialisation (Ertürk & Solari, 2007; Froud et al., 2002). Based on this new generic term, the social accounting school examined the U.S. and U.K. economies and described financialisation as a macro-, meso- and micro-process characterised by large flows of coupons between firms and households. Boyer (2000) and Aglietta (2000) analysed the current growth of a regime dominated by finance with a focus on the implications of shareholder value on corporate governance. Another body of work addressed how financialisation is penetrating into everyday life. In this context, Martin (2002) and Langley (2009) described the process as "financialisation of everyday life" which finds its reflection in the increased exposure of individuals to financial risks. Finally, the works of the network of Research on Money and Finance consider financialisation as a structural transformation of capitalist economy in the last three or four decades. This strand of literature specifically focuses on the transformations of the banking sector activities and financialisation of personal income (see Dos Santos, 2009, Ergüneş, 2009; Lapavitsas 2009a, 2009b, 2010).

economy. Therefore, according to these authors, stagnation reemerged in the U.S. economy in the 1970s. In essays in the *Monthly Review*, Magdoff and Sweezy (1972, 1987) asserted that expansion of finance provided the means to grow the U.S. economy. They called this expansion a "financial explosion" which has become a major phenomenon in the operation of capital (Magdoff & Sweezy, 1972). According to Magdoff and Sweezy (1987, p. 13), "more and more of it [fresh pool of fresh savings] was flowing into purely financial channels, giving rise to a vast expansion of the financial superstructure of the economy and an unparalleled explosion of speculative activities of all kinds".

Based on this observation, they argued that capitalism was undergoing a transformation in which finance had become the dominant activity. Under this new phase, capital increasingly relied on circulation. More recently, a similar analysis came from Foster and Magdoff (2008) in the *Monthly Review*. They stated that in Marx's formulation, financialisation denotes:

> A shift from the "general formula for capital" M(oney)-C(ommodity)–M¢ (original money plus surplus value), in which commodities were central to the production of profits—to a system increasingly geared to the circuit of money capital alone, M–M¢, in which money simply begets more money with no relation to production. (Foster & Magdoff, 2008, p. 15)

According to Foster and Magdoff (2008), financialisation stems from the problems in capital accumulation, the same as identified by Baran and Sweezy in their early studies. The new stage of capitalism is characterised by "monopoly–finance capital" under which the role of mega-financial institutions has increased and an ever-increasing concentration of capital has been witnessed (Foster & Magdoff, 2008).[28]

In similar accounts, Brenner (2004, 2006) and Arrighi (1994) analyse financialisation but from different perspectives. They see financialisation as a sign of problems in the real economy. Brenner (2004) used the term "long downturn" to describe the stagnation of the

[28] *Monthly Review* tradition has been characterised by an emphasis on underconsumption theory which explains crises by the inability of the working class to buy what they need and want. In this context, the fundamental contradiction of capitalism is seen as "the contradiction between the tendency of forces of production to develop without limitation, and the tendency towards limitation of the demand and the consumption of the 'final consumers'" (Mandel, 1998, p. 401). According to Carchedi (2009), the major shortcoming of the underconsumptionist theory is that while focusing on the absorption capacity of labour, it does not consider the absorption capacity of the capital. The fall in wages does not have to lead to a limitation of demand if the absorption capacity of the capital could be maintained. To its critiques, underconsumption can be part of the reason for a crisis but cannot be the primary reason behind a crisis.

world economy since 1973. Brenner (2006) mainly focused on the intercapitalist competition, especially the one between the United States, Germany, and Japan as the source of the crisis that started in the 1960s and continues today. The competition from Japanese and German exports in the mid-1960s led to overcapacity and overproduction in the market for manufacturing sector in the United States. According to Brenner (2006), this is the main reason for the fall in profits in the U.S. economy between 1965 and 1973,[29] as opposed to the increased upward pressure on costs resulting from the exercise of increased power from workers, as often argued. According to Brenner (2002), capital investment and profitability are the primary determinants of economic dynamism in general and productivity growth in particular. Therefore, he sees the dramatic fall in profits of the manufacturing sector and its influence on the overall profitability of the U.S. economy as the triggering events of the global crisis. Repression of wages and slowdown in investment resulted in contraction of demand. Demand management policies only temporarily offset the decline in profit rates for nearly two decades. During that time, debt levels surged and a series of financial activities served for the continuation of the system. Brenner (2009) described the plan that the U.S. Federal Reserve embarked on to deal with the pervasive stagnation:

> Corporations and households, rather than the government, would henceforth propel the economy forward through titanic bouts of borrowing and deficit spending, made possible by historic increases in their on-paper wealth, themselves enabled by record run-ups in asset prices, the latter animated by low costs of borrowing. Private deficits, corporate and household, would thus replace public ones. The key to the whole process would be an unceasing supply of cheap credit to fuel the asset markets, ultimately insured by the Federal Reserve. (p. 2)

Brenner's analysis stimulated many debates in the literature.[30] What is important, for the purpose of this dissertation, is his account for the recent rise in financial activities as a response to the stagnation and problems in the real economy since the late 1970s.

Arrighi is also an initial contributor to the financialisation literature. However, unlike Sweezy and Magdoff, who focused on post-war developments, or Brenner, whose argument

[29] The rate of profits in the manufacturing sector and private business sectors fell by 40.9% and 29.3% between 1965 and 1973, respectively (Brenner, 2006).
[30] See Fine, Lapavitsas, and Milonakis (1999) for a critical response to Brenner from a value theory standpoint. Their study criticised Brenner's work due to its ignoring the importance of credit and international finance.

centred on post-1973, Arrighi took a long-term historical perspective in his analysis, beginning with the emergence of capitalism in the 15th century. He draws on Marx`s formulation of capital accumulation in examining the increasing role of finance. According to Arrighi (1994), Marx's formula of capital could be used not only to examine the individual trend of capitalist investment but also the pattern of capitalism as a whole, from its earliest phase to present.

> The central aspect of [pattern of historical capitalism] is the alternation of epochs of material expansion (MC phases of capital accumulation) with phases of financial rebirth and expansion (CM' phases). In phases of material expansion money capital [M]"sets in motion" an increasing mass of commodities [C](including commoditized labor-power and gifts of nature); and in phases of financial expansion an increasing mass of money capital (M') "sets itself free" from its commodity form, and accumulation proceeds through financial deals (as in Marx's abridged formula MM'). Together, the two epochs or phases constitute a full *systemic cycle of accumulation* (MCM'). (Arrighi, 1994, p. 6)

According to Arrighi (1994), even though finance has expanded and reveals new features, its dominance is not peculiar to the current era of capitalism. Expansion of finance has been a response to the intensification of competition in capitalist economies, experienced temporarily during the decline of every hegemonic power (Genoese, Dutch, British, and American) since the 15th century. Hence, financial expansion is something that is inherent to the cyclical nature of capitalism.

According to Arrighi (1994), the last cycle—the U.S. systemic cycle of accumulation—began in the late 19th century. What is called financialisation today is the financial phase of this cycle that started in 1973. It is different from the earlier phases because its scale is much larger and encompasses the whole world due to several liberalisation and deregulation policies. Although highlighting the differences, Arrighi (2005) added that the similarity between financialisation and the financial expansions of the previous eras represents continuity within the history of capitalism. Financial expansions always follow stagnation in the real economy.

The common ground of all these studies is that they all stress the stagnation of the late capitalism rather than the new dynamics it represents. Although it is important to build an analysis on the problems in the real economy related to the lack of investment opportunities

in the productive sector, one should not ignore the dialectic relation between the real economy and finance. While transformations in the real sector have led to an expansion of finance, "many innovations in finance have in fact facilitated this restructuring in systems of production and spread them through the internationalization of capital" (Albo et al., 2010, p. 33). In other words, in Marxist analysis, finance is not something simply positioned on production. There is a causal relation between real accumulation and finance even if real accumulation set the principles for the latter (Lapavitsas, 2010).

Based on this line of reasoning, the argument of this dissertation is that an understanding of the recent expansion in finance is only possible by including a multidimensional analysis of the many transformations that capitalism has been undergoing. The literature on financialisation not only sheds light on the roots of the process (in explaining the dominant role of finance in the contemporary world) but also provides insights into an analysis of many transformational processes (which have taken place in financial and nonfinancial sectors). It is in this context that this study contextualises the rise in consumer credits and household indebtedness as important aspects of financialisation.

Although the financailisation literature provides valuable insights into an examination of the transformation of the world economy in the last few decades, financialisation of developing country economies has remained a neglected area. Section 3.3 turns to a discussion of financialisation of developing countries, particularly focusing on how the integration of developing countries has played a crucial role in shaping their financial systems.

3.3 Financialisation in Developing Countries

Although financialisation has emerged as a structural transformation in developed countries, it has become a global process and taken developing countries under its influence as well. In close connection with the internal dynamics of these countries, financialisation of developing countries intensified as they were further integrated into the world economy.

3.3.1 Development of Domestic Public Debt Markets

The emergence of the sovereign debt markets is an important feature of the financialisation in developing countries in relation to their integration into the global financial markets. These markets emerged as integral to the resolution of the Latin American debt

crisis in the 1980s. Therefore, it is useful to start this discussion with an analysis of the debt crises. Under the Bretton Woods system, the international debt market was essentially dominated by official and bilateral loans to certain countries in the global South (Soederberg, 2005). Two oil hikes in the 1970s and the growth of the Eurodollar market stimulated developing countries' access into the international capital markets.[31] The oil hikes, however, also led to a recession in industrialised countries. At a time when there was stagnant domestic demand and the U.S. banks were losing market share at home, foreign lending became more attractive for U.S. banks (Mahmud, 2010). Throughout the 1970s, OPEC surpluses were recycled to developing countries in Asia, the Middle East, Africa, and particularly Latin America through syndicated dollar-dominated loans via the Eurodollar markets (Vasudevan, 2009a). In other words, surplus capital in the United States started funding a lending boom in developing countries (Mahmud, 2010). As a result of growing inflationary pressures in the aftermath of the 1978-1979 dollar crisis, there was a decisive U.S. policy shift as Paul Volcker, the chair of the U.S. Federal Reserve, adopted austerity measures to stabilise the dollar and push up interest rates at unprecedented levels. The steep rise in interest rates precipitated the debt crises in the debtor developing countries because they could not manage their debt service payment any longer.[32] Added to this, Mexico's default in 1982 triggered a sudden halt in lending.

In the aftermath of the 1982 debt crisis, the International Monetary Fund (IMF), commercial banks, and other multinational lending agencies provided new loans to those countries at risk. The aim was to allow these countries enough time to become capable of reducing their debt levels. However, the default in Mexico was only the beginning, as Brazil, Argentina, Venezuela, and the Philippines also then defaulted (Vasudevan, 2009a). When it became evident that developing countries were unable to repay their debts, the Baker Plan was implemented in 1985, and it was meant to provide new lending to developing countries conditioned on market-oriented reforms such as privatisation of state-owned enterprises,

[31] "The Eurodollar market had emerged in the 1960s as an outcome of U.S. attempts to restrict capital outflows. U.S. transnationals increasingly began to finance overseas operations through this growing market which was moreover entirely unregulated. This burgeoning offshore market, which was both liquid and unregulated, proved an important means for encouraging foreign investors to finance the U.S. deficit. With the dollar denominated surpluses of the OPEC countries being recycled through this market in the 1970s, the market grew to be a full-fledged capital market" (Vasudevan, 2009b, p. 484).

[32] Gowan (1999) attracted attention to the different explanations about the causes of the crisis. The advocates of the Dollar-Wall-Street Regime blame the import-substituting development strategy for debt crises. However as Rodrik (1998) stated, Latin American, Middle Eastern, North African, and even some Sub-Saharan African countries made phenomenal progress in terms of economic growth thanks to import substitution industrialization (ISI) policies. To Rodrik (1998), the reasons of the debt crises had little to with the ISI policies but much to do with the failure to undertake the appropriate macroeconomic adjustments in terms of fiscal, monetary, and foreign exchange policies in response to the external shocks.

opening up to FDI, and ending subsidisation to local business (Soederberg, 2005). However, the Baker Plan was not successful in solving the debt problems of the developing countries or in motivating them to introduce market reforms. It became evident that offering time to indebted countries to put their finances back on track was not sufficient because the debt crisis was not a liquidity but a solvency crisis (Pauly, 2003).

The 1989 Brady Plan introduced a new strategy to manage developing countries' external debt: negotiations between private creditors and debtor countries for a shift from debt rescheduling to debt relief. While a part of the debt reductions were funded via loans from international financial institutions, the rest were rescheduled into Brady Bonds[33] — debt-equity swaps were promoted which allowed the transformation of defaulted loans into Brady Bonds. Ünal, Demirgüç-Kunt, and Leung (1993) provided a brief explanation of the Mexican financing package to give an understanding of how the plan worked. The arrangement was made between the Mexican government and a bank advisory committee representing more than 500 commercial creditor banks.

> Over five hundred banks worldwide negotiated the terms of a menu to exchange their Mexican loans with enhanced bonds or increase their exposure to Mexico (by lending new money). The deal covered about $48.9 billion of medium-term and long-term commercial bank debt. The banks had the option of providing new loan or convert their outstanding debt to bonds with either a reduced face value and market-based interest rate or the same face value but a reduced and fixed interest rate (Ünal, Demirgüç-Kunt & Leung, 1993, p. 411)

In the case of Mexico, banks chose to swap 49% of their loans for debt reduction bonds and 41% for debt-service reduction bonds. Added to this, banks, which held 10% of the loans, agreed to provide new money.[34] In compensation for the reduction in the debt burden and interest payments, the funds obtained from the IMF and the World Bank were used to

[33] In Kregel's (1998) definition, a Brady Bond is a kind of structured derivative package. The developing country uses foreign exchange reserves as equity capital to create an investment company. The investment company then uses its equity (i.e., foreign exchange) to buy long-term U.S. treasury bonds. The company also issued its own fixed-interest liabilities in the form of long-term bonds. These loans were named for then-current U.S. Treasury Secretary Nicholas Brady. They carried a sovereign government guarantee, in an amount equal to the maturity value of the U.S. treasury discount bonds.

[34] There were significant differences between the choices of banks from different countries. For instance, Japanese banks chose to convert 80% of their loans into discount bonds while German banks chose to take 80% of the loans as par bonds. U.S. and French banks preferred to advance new money. See Buckley (2009) for details of these loans.

enhance the creditworthiness of securities to be exchanged for commercial banks' existing loans (Ünal, Demirgüç-Kunt & Leung, 1993).

Overall, in the early 1990s, 18 countries restructured $200 billion in bank loans into $154 billion in bonds (Gill & Pinto, 2005). The conversion of debt to equity in the form of tradable bonds was the key element of the Brady Plan in dealing with the debt crisis. The sale of these bonds in the secondary markets would allow diversification of sovereign risk away from private creditors to wide international capital markets (Vasudevan, 2009a). From the point of banks, the restructuring worked well.

> It (restructuring) signalled an end of the debt crisis to the broader markets, and debtor countries could borrow and issue bonds again, generating fees for the banks. Loans having been converted into bonds, distressed assets went off the balance sheets and freed up capital for other uses. It gave the banks liquid bonds in place of the relatively illiquid loans, and triggered a turn-around in secondary market prices of these assets. (Mahmud, 2010, p. 132)

Allowing banks to remove the debt from their balance sheets was a key element of the Brady Plan because it freed up assets for other uses. In addition, being allowed to sell these loans signalled that their balances were now strong enough.

From the point of the debtor countries, the plan was criticised by some due to the inadequacy of the debt reduction to resolve the problems of these countries.[35] Debt level, indeed, did not decline significantly. Further, debt was serviced at the cost of development and spending on social services. More importantly, the Brady Plan increased the dependency of "emerging markets"[36] on international capital markets for their financing needs. In this framework, foreign direct investment and portfolio investment began to play an important role in transferring resources to developing countries and, leading to enhanced debt service capacities. As such, increased integration of developing countries into the global financial

[35] Sachs (1989) argued that debt reduction should be sufficient to enable the debtor to repay the remaining debt service routinely and to resume growth. The targeted amount of debt reduction should be based on a professional assessment. He suggested that in Mexico's case, the debt burden should have been reduced to approximately 45% of the face value.

[36] There is no consensus on the exact definition of emerging markets. The term, initially coined by World Bank economist Antonie van Agtmael, was popularized by the International Finance Cooperation (IFC). In 1986, the IFC began to compose a database of "emerging markets" consisting of low- and middle-income countries that met certain criteria of openness to foreign portfolio investment. The new term gained broad appeal by the early 1990s. For further details, see Sidaway and Pryke (2000).

system increased their dependency on the stability of the system. As Soederberg (2005) noted:

> The disciplinary and bargaining power of capital over debtor states must be administered in such a manner as to integrate debtor states into the global financial system so that they become increasing dependent not only upon loans from private and public creditors and the subsequent rescheduling and refinancing agreements, but also on the overall stability of the global capitalist system. (p. 936)

According to Painceira (2009), the Brady Plan can be regarded as beginning of the financialisation of developing countries in close connection with their integration into the international financial markets. The plan was pivotal in creating sovereign debt markets, removing controls on capital markets, and encouraging financial reforms. Gowan (1999) summarised that all the measures imposed on developing countries are the lessons learnt by the American financial operators during European imperialism:

> The imperial power could take the advantage of a country's debt crisis to reorganise its internal social relations of production in such a way as to favour the penetration of its own capitals into that country…. The second lesson, learnt by American financial operators, was that the kinds of long or medium-term syndicated bank loans used for recycling the petrodollars was too rigid since it locked the funds of these banks up in the fates of the borrowing countries. Therefore they sought to shift towards safer operations with interest bearing capital: lending through bonds from which they could withdraw by trading them on the securities markets. They also learned that they could get crisis-ridden target countries to build domestic stock markets and could start to play these as a profitable way to earn royalties. But these kinds of operations would require removing the controls on the capital accounts of such countries. (p. 41)

The way in which debt crisis was administered might be expected to render the role of international financial institutions superfluous given that official funding had been overshadowed by private loans with the Brady Plan. Indeed, however, their roles strengthened more after the implementation of the Plan (Pauly, 2003). Debt restructuring negotiations occurred within the context of the IMF standby agreements which conditioned the debt reductions on policy adjustment programs.

The structural conditionality, in contrast to the technical advice, would come to the forefront in the IMF policy proposals in the 1990s. However, the evolving responses to the debt crises had already marked adaptation of the IMF practices along the line of structural conditionality (Pauly, 2003). In the 1980s, the role of the IMF changed from managing adjustments in the international payment system to dealing with the foreign debt crises and flows of capital from international capital markets to developing countries. Accompanied with this, there had been a shift in the World Banks' lending process from project loans to structural adjustment loans in coordination with the IMF-imposed conditionalities (Mahmud, 2010). The market-oriented reforms imposed by the IMF and the World Bank came to be known as the Washington Consensus. The reforms prescribed to the developing countries included fiscal discipline, cutting expenditures on health and education, liberalization of interest rates, openness to FDI, privatization of state-owned enterprises, tax reforms, and competitive exchange rates. As Lapavitsas (2009c, p. 7–8) asserted, "guided and enforced by the World Bank and the IMF, the Washington Consensus led developing countries to alter the balance of domestic finance away from bank-based, relational, government-controlled toward market-based, arms length, private institutions and mechanisms".

As mentioned earlier, an important aspect of the process was the opening up of capital accounts in the post-1980 era. Accompanied with financial liberalisation measures, this deepened the "domestic financialisation" in these countries by articulating them into the international financial markets. For developing countries, as far as the sovereign debt market was concerned, the situation led to increased involvement of private investors in domestic capital markets. Financial institutions, especially the commercial banks as the holders of securities became the major agents in government debt markets.

The early 1990s was marked by a remarkable rise in capital flows to the so-called emerging markets. Capital account liberalisation policies were expected to lead to financial deepening in developing economies by releasing the domestic constraints on financial markets. The theoretical underpinnings of the financial liberalisation argument in general are rooted in the widely cited works of McKinnon (1973) and Shaw (1973). They are the first to explicate the notion of financial repression. According to these authors, restricting interest rates causes real interest rates to be low, and this represses the savings necessary for financial investment. Moreover, under interest rate regulations, the allocation of resources becomes subject to the political will of governments. Theoretically, if interest rates are determined by market forces, they rise, savings increase, and a better allocation of resources is possible; all of these steps eventually promote economic development. The authors also argued that

historically many developed, but especially developing countries, restricted competition in the financial sector by government interventions and regulations, resulting in ineffectual and corrupted allocation of resources. If the interest rates had been deregulated, a better allocation of resources might have been achieved by market forces.

On the basis of these arguments, financial repression became a way of describing financial systems of developing countries before the widespread financial liberalisation in the 1980s (Reinhart & Sbrancia, 2011). Eventually, the concept of financial repression was used to refer any kind of restriction, including the ones on capital account transactions. Based on this line of reasoning, it is argued that international mobility of capital enables savings to be pooled and allocated efficiently throughout the world by equalizing the rate of return all over the world (Akyüz, 1993). Consequently, in developing countries, capital account liberalisation was expected to lead to efficient allocation of savings and investments, as these countries would benefit from foreign savings through capital flows. The international capital flows to developing countries were explained as one-off adjustment of domestic interest rates to world interest rates, and they were supposed to end as capital scarcity ceased to exist in those countries (Akyüz, 1993).

However, in practice, rather than increasing resources for investment, capital account liberalisation and other financial liberalisation measures led to increasing volatility and instability in developing countries and created conditions of income transfer to developed countries. First, deregulating financial markets resulted in high and persistent interest rates in developing countries. This was necessary to attract capital inflows to those countries. There is strong evidence that high interest rates reduce the aggregate level of investment by changing the composition of investment in favour of short-term, high-risk projects and by attracting financial speculation and short-term capital inflows (Akyüz, 1993).

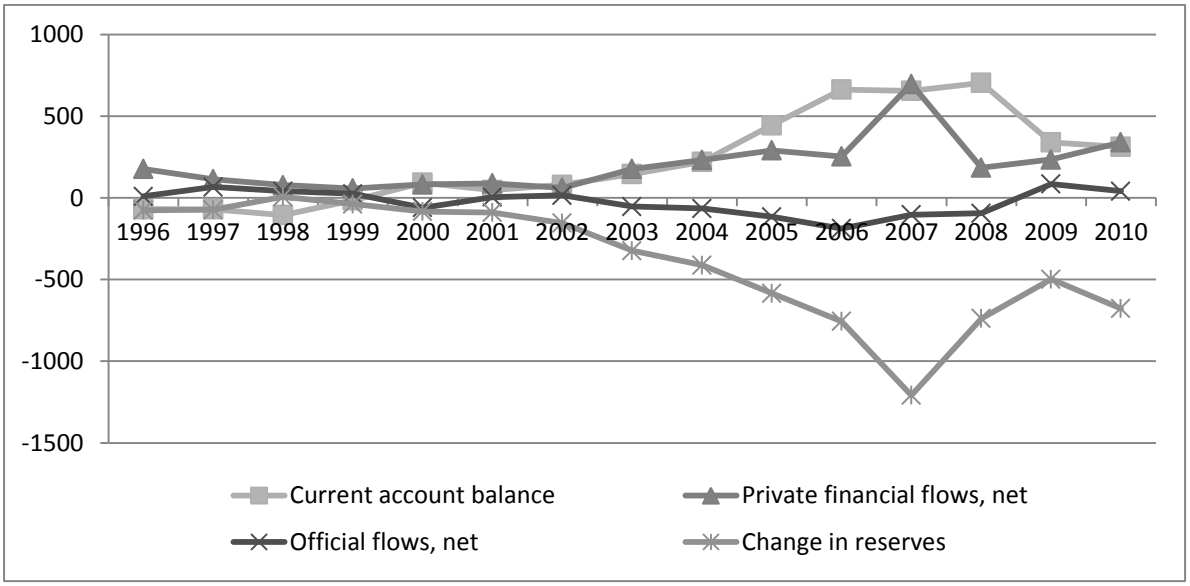
Second, as a result of financial liberalisation, developing countries witnessed extreme disruptions in foreign exchange markets. External financial liberalisation eased both the financial operations of non-residents in national markets and residents' acquisition of assets and liabilities denominated in foreign currencies (Akyüz, 1993). In this new environment, exchange rates become just another asset price open to speculation (Ertürk, 2003). This implies that under the regime of capital flows, speculation in fragile markets, not trade balances and relative purchasing powers of currencies, become more important in determining the exchange rate.

Between 1989 and 1997, developing countries experienced a remarkable surge in capital flows, accompanied by a remarkable increase in their current account deficits.

Abundance of foreign currency encouraged the appreciation of domestic currencies, resulting in a significant increase in imports.

Capital flows were used to finance current account deficits in the absence of reserve accumulation (Yentürk, 1999). High interest rates, appreciated currencies, and the resulting rise in capital inflows encouraged speculative activities; that is, until the wave of capital flows ended suddenly with the Asian Crisis of 1997-1998. Between 1997 and 2001, developing countries experienced sudden capital outflows leading to many severe financial crises with worldwide repercussions. Along with the crisis in East Asia, crises in Latin America and Turkey in the late 1990s and early 2000s were among the most severe of them.[37] The crises had dramatic impacts on developing countries in terms of sudden currency depreciation, contractions in demand, declines in growth rates, and rises in unemployment.

Figure 3.1: Net Global Capital Flows –Emerging and Developing Economies ($ Billions)



Source: IMF, World Economic Outlook Database

The revival of capital flows to developing countries between 2002 and 2007 fostered the financialisation of developing countries. In the 2000s, developing countries adopted new policies that benefitted from this financial expansion, and these policies were in accordance with the requirements of the foreign and domestic capital. Reserve accumulation, inflation

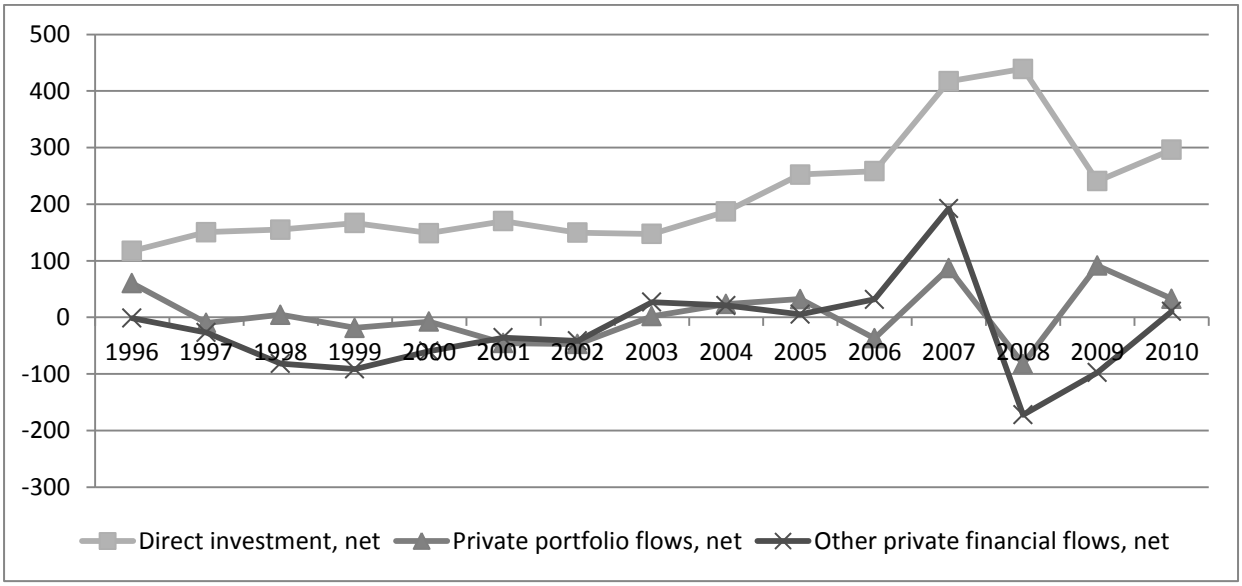
[37] Several arguments have been put forth regarding the underlying reasons behind the financial crises in developing countries. For certain, these reasons include the institutional structures, political environments, and socioeconomic conditions of each country. However, there seems to be broad consensus that capital account liberalisation played a key role in this respect. Sudden changes in the direction of capital flows can induce boom–bust cycles. In many cases, crises were triggered by sudden capital outflows which resulted in a sharp depreciation of currencies and dramatic increases in real interest rates.

targeting, and central bank independence became the key monetary tools, and their implementation intensified the dominance of finance in developing countries, as will be elaborated on in this section.

Credit expansion skyrocketed after 2001 because of very low interest rates, especially in the U.S. economy, and that contributed to financial expansion in the world markets (McNally, 2009). The rise in capital flows to developing countries can be seen in Figure 3.1. Much as described above, the volume of capital flows dropped sharply in 2008 as a result of the contraction in the world economy due to the global economic crisis.

One of the main features of capital flows in this last phase is the significant change in their composition. While previous capital flows mostly took the form of debt flows, in the 2000s, they were dominated by foreign direct investments (see Figure 3.2).

Figure 3.2: Net Private Capital Flows –Emerging and Developing Economies ($ Billions)



Source: IMF, World Economic Outlook Database

Another characteristic of these capital inflows in contrast to the 1990s is that many developing countries have either significantly reduced their current account deficits or moved from deficit to surplus.[38] This is due at least in part to the shift in production from developed countries to East Asia. Low labour costs, noticeable productivity levels, relatively controlled capital accounts, and targeted exchange rates contributed to the trade surpluses, especially in

[38] Certainly, there are differences among developing countries in terms of the direction of changes in their current account balances. For instance, Brazil and Turkey were among the ones whose current account deficits increased in the 2000s.

China and India (Boratav, 2009). In some other crisis-ridden East Asian and Latin American countries, reducing the current account deficit was set as an objective to service external debt in the wake of the crisis period and to increase foreign exchange reserves (Boratav, 2009).

The remarkable increase in capital inflows in the 2000s was accompanied by increases in reserves of developing countries (see Figure 3.1). After the financial crises in the 1990s and early 2000s, holding foreign exchange reserves was regarded as an important tool to prevent sudden capital outflows and to reduce exchange rates instability. Reserve accumulation has many implications for developing countries. As stated by Painceira (2009), two of the most important of these implications are the capital transfers from developing to developed countries and the increase in the public deficit. The former is related to the preference of central banks in holding their foreign exchange reserves mostly in short-term U.S. Treasury securities. This has led to a rise in capital flows to the U.S., which generates international reserve currency.[39] The latter arises due to the necessity of sterilising the excess liquidity to prevent the inflationary impact of reserve accumulation.

Analysing the balance sheet of a central bank (see Table 3.1) provides insights on the impact of the reserve accumulation on monetary policy and its challenges to the economy. The balance sheet of a central bank can be roughly illustrated as:

Table 3.1: Typical Central Bank Balance Sheet

Assets	Liabilities
Net foreign assets (foreign reserves)	**Reserves of the banking system**
Domestic assets (treasury securities)	**Currency in circulation**

The asset side of a central bank balance sheet includes domestic currency assets, generally in the form of treasury securities and foreign assets. The liabilities of a central bank constitute a country's monetary base. As Higgins and Klitgaard (2004) suggested, a central bank's balance sheet can be represented by the accounting identity:

Monetary base = net domestic assets + foreign exchange reserves

This identity implies that a central bank can manage the monetary base by controlling the holdings of domestic and foreign currency assets (Higgins & Klitgaard, 2004). The accumulation of foreign exchange reserves is reflected as an increase in the assets of a central

[39] Despite that there were large capital inflows to developing countries in the 2000s, the outcome was net capital flows from developing to developed countries (Painceira, 2009).

bank. It leads to an increase in the monetary base and thus liquidity in the economy. Hence, the accumulation of foreign exchange reserves has an inflationary impact on the economy which can be managed by the central bank operations. To offset the inflationary impact from an increase in foreign exchange reserves, the central bank in many developing countries sterilise the reserve accumulation.[40] Central banks often carry out sterilisation by issuing their own securities.[41] The accumulation of foreign exchange reserves leads to a substantial increase in the issuance of short-term debt securities, notably by the central bank (CGFS, 2007). Throughout the early 2000s, accompanied by a rise in reserve accumulations in emerging markets, there has been a remarkable growth in domestic bond markets.[42] Table 3.2 shows the rise in issuances of bonds and notes in domestic markets in different regions.[43]

Table 3.2: Changes in Stocks of Domestic Bonds and Notes in Emerging Economies (Annualised, in $ Billions)

By area	1995-1999	2000-2004	2005	2006
Latin America	42.0	36.2	83.2	88.4
Asia, larger economies	90.1	161.4	202.6	218.4
Other Asia	20.8	22.2	23.6	26.3
Central Europe	7.3	14.1	24.0	23.1
Total	184.7	269.3	372.2	381.1

Source: CGFS (2007)

[40] This entails costs to developing countries. Rodrik (2006) estimated the social cost of holding reserves as a spread between private sectors' cost of short-term borrowing abroad and the yield that a central bank earns on its liquid foreign assets. The cost arises because private sector borrows at a higher rate than what the central bank earns on its foreign currency assets. He estimated this cost as approximately 1% of the GDP for each developing country. According to Rodrik, this is the average cost that developing countries pay to be involved in financial globalisation. There are many other studies in the literature which discuss the opportunity cost of holding reserves by considering the cost in terms of forgone investments (Summers, 2006; Wijnholds & Sondergaard, 2007). The costs arise because developing countries are increasing their public deficit not for broader development objectives but to avoid the inflationary pressures of the reserve accumulation strategy.

[41] Indeed central banks can sterilize the effect of hoarding on the monetary base in various ways, using market-based and nonmarket-based approaches. Market-based approaches include open market operations, swap operations in the foreign exchange market, and adjustments of government deposits. Nonmarket-based approaches include measures such as adjusting reserve requirements for commercial banks

[42] Morena (2011) stated that sterilization had led to an increase in government debt securities that could be presented as collateral. "Issuance of government debt securities in emerging market economies has risen, and by June 2010, it reached $5 trillion for a set of larger emerging market economies, compared with slightly under $1 trillion in December 1999" (Morena, 2011:72).

[43] The detailed country data are provided on the BIS website (www.bis.org/statistics/secstats.htm). The data for domestic debt securities for the later years includes money market instruments. The updated data is given in BIS (2008). Nevertheless, due to incomparability, the recent data is not included in the table.

The growth of domestic bond markets is an important aspect of financialisation in developing countries. Issuances in domestic bond markets are mainly dominated by government and central bank securities. As of 2005, public sector debt securities (including Central Bank issuances) constituted 74% of the domestic debt securities outstanding in emerging markets (CGFS, 2007). Banks and other financial institutions played a pivotal role in the process as the main holders of government securities, which increased their economic power. Between 2000 and 2005, the share of the total domestic debt held by banks rose from 28% to 42% and by other financial institutions from 29% to 38% (CGFS, 2007). Financial institutions acquired high profits by lending governments the funds they obtained from domestic and international financial markets.

Apart from reserve accumulation, inflation targeting (IT) also became a major monetary policy of the "emerging market" economies as well as the advanced industrialised countries in the 2000s.[44] Mishkin (2004) lists five components of an inflation-targeting regime as:

> 1) the public announcement of medium-term numerical targets for inflation; 2) an institutional commitment to price stability as the primary goal of monetary policy; 3) an information-inclusive strategy to set policy instruments; 4) increased transparency of the monetary policy strategy, and; 5) increased accountability of central bank for attaining its inflation objectives. (p. 1)

Mishkin attracts attention to this broad definition of IT, especially in the context of emerging economies, by stating that the success of the IT strategy depends not only on the public announcement of numerical targets but on all of the listed conditions. This definition of the IT strategy also implies that it should enforce central bank independence. This is based on the argument that a central bank's independence from political pressure helps bring down inflation at a lower cost in terms of higher real interest rates, higher unemployment, and slower economic growth (Epstein, 2007). The justification is that if prise-setters trust the credibility of the central bank, then they will reduce future inflation expectations. In this way,

[44] The regime of IT was first adopted in advanced countries. New Zealand was the first country to adopt the framework, followed by Canada, the United Kingdom, Sweden, and Australia. By the end of the 1990s, a group of emerging-market economies started to follow the same path. In 1999, Brazil, Chile, Colombia, and Mexico switched from exchange rate targets to inflation targeting. About the same time, the Czech Republic, Hungary, Poland, Israel, Korea, South Africa, and Thailand adopted inflation targeting. Indonesia and Romania followed in 2005, and then Turkey in 2006.

inflation can be reduced without imposing significant costs on the real economy via rising real interest rates.

The major motivations behind the implementation of IT were reducing the inflation rate and deepening the financial markets, thus achieving high growth rates. Other economic policy objectives such as employment generation, income distribution, and economic growth should be subordinated to the IT (Papadatos, 2009). Empirical evidence on the performance of inflation targeting is controversial. While some of the studies assert that the IT has been quite successful in lowering inflation and improving economic performance, others argue that targeting low inflation has had little to do with economic growth.[45]

As Saad-Filho (2007) stated, like other monetary policy strategies of the "mature neoliberalism", such as central bank independence and floating exchange rates, IT is a highly political strategy. From a Marxist perspective, the phenomenon should be examined within its historical and socioeconomic contexts. IT was designed in response to domestic political imperatives and validated by the international agencies in the age of financialisation. In essence, these policies aim at fulfilling the requirements of the domestic capital by promoting the integration between domestic and international capital through capital flows which require a stable macroeconomic environment. High inflation is a major threat to stability and to the earnings of the financial sector as they lead to erosion in the real value of financial wealth. Focusing on the class dimension of IT and central bank independence, Papadatos (2009) argued that these policies serve financial interests at the expense of working people.

> The convenient legal fiction of independent central banking was created, separating the electoral process from monetary policy. The latter was apparently to be determined by disinterested and class-neutral experts on "objective technical grounds". Financial interests were assured that inflation—which is deeply damaging to them—would not be tolerated. Financial bubbles, on the other hand, were seen as irrelevant to central banking, and even declared unlikely if inflation was kept low. In effect financial interests were told that the central bank was not going to intervene in their speculations, while protecting them from high inflation. (p. 12)

In this sense, considering that the financial system is linked to real accumulation, protecting financial interests plays a key role in promoting capital accumulation. Regarding the

[45] See Mishkin & Schmidt-Hebel (2002) for a review of the literature on IT.

"emerging market economies", IT serves to attract capital inflows in the integration of these countries into the world economy.

To sum up, along with the global changes, developing countries have undergone several transformations since the 1980s. The liberalisation of capital accounts as well as changes in public deficit management and monetary policies have deepened the dominance of finance in those countries. In the 2000s, the rapid build up of consumer credits added a new dimension to the financialisation of developing countries. Banks once again were the key players in the process. This study particularly focuses on the rise in consumer debt in the financialisation process of developing countries in the 2000s, with a special focus on the Turkish economy.

3.3.2 Dynamics Behind the Rise in Consumer Credit and Household Indebtedness

Several studies in the financialisation literature have drawn attention to the extraordinary growth of personal debt and increased involvement of workers and others into the financial system, especially in developed countries (Bryan et al., 2009; Dymski, 2009; Lapavitsas & Dos Santos, 2009). However, there has not been significant attention to the phenomenon in the context of developing countries. Although the levels are still low in comparison to developed countries, there has been a remarkable increase in housing and consumer credit in several developing countries in recent years including many Latin American, East Asian, and East European countries. There have been some studies in the literature which focus on the rise in consumer credit in the developing countries. For instance, Mohanty and colleagues (2006) pointed out the remarkable rise in the shares of housing and consumer credit and the significant decline in the share of business credit in bank portfolios in several developing countries between 1994 and 2004. Cetkovic (2010) also presented evidence on the household credit growth in Bosnia, Herzegovina, Croatia, and Serbia prior to the 2008 global crisis. Mihaljek (2006) that the most dramatic increase in household lending in the first half of the 2000s was experienced in Hungary, Korea, and Turkey.

Data on aggregated household balance sheets in developing countries are generally not available. The most comprehensive data on household credit and debt comes from the IMF Global Financial Stability Report (2006). The report provides data on trends in household credit in a sample of 23 emerging markets. It shows that household credit grew rapidly in these countries, particularly in emerging countries in Europe, including Turkey. The average annual growth of real household credit between 2000 and 2005 was 47.7% in

emerging Europe (Poland, the Czech Republic, Turkey, Hungary, Bulgaria, Russia, and Romania); 22.6% in emerging Asia (South Africa, Taiwan Province of China, Malaysia, Thailand, Korea, Indonesia, India, China, and the Philippines); and 8.9% in emerging Latin America (Argentina, Colombia, Mexico, Peru, Chile, Brazil, and Venezuela). As an expected outcome of rapid growth of consumer credit, developing countries experienced a remarkable increase in the ratio of household debt to disposable income.

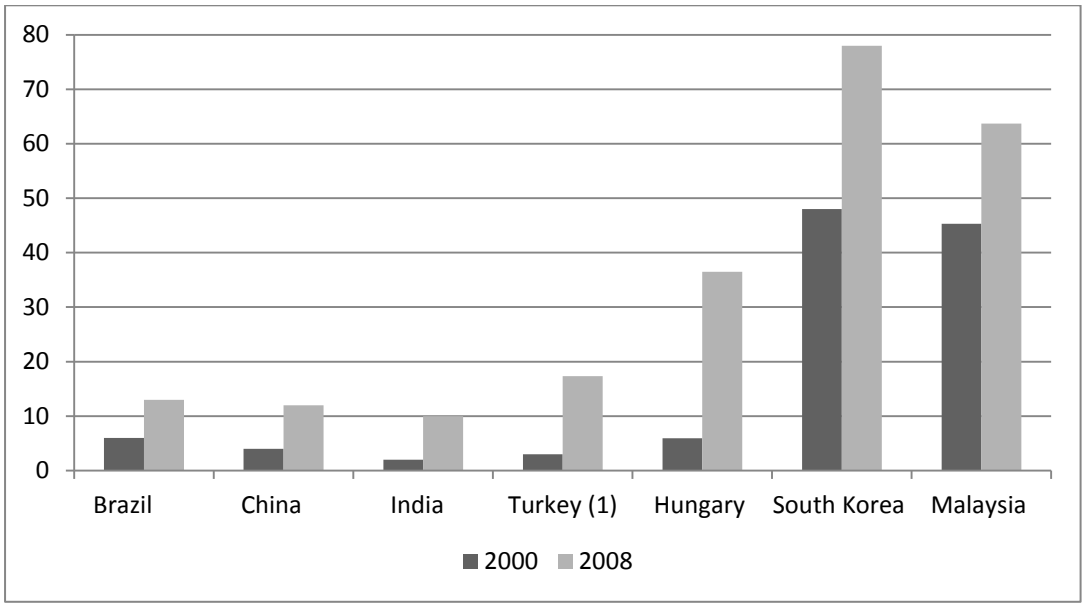
Table 3.3: Household Debt to Disposable Income in Emerging Markets (%)

	2000	2001	2002	2003	2004	2005
Czech Republic	8.5	10.1	12.9	16.4	21.3	27.1
Hungary	11.2	14.4	20.9	29.5	33.9	39.3
Poland	10.1	10.3	10.9	12.6	14.5	18.2
India	4.7	5.4	6.4	7.4	9.7	--
Korea	33.0	43.9	57.3	62.6	64.5	68.9
Philippines	1.7	4.6	5.5	5.5	5.6	--
Taiwan Province of China	75.1	72.7	76.0	83.0	95.5	--
Thailand	26.0	25.6	28.6	34.3	36.4	--

Source: IMF (2006)

Figure 3.3 provides more recent data on household debt levels to GDP in certain developing countries between 2000 and 2008. It shows that household debt levels in South Korea and Malaysia are especially striking. Although household debt levels as a percentage of GDP are lower in other countries, they all showed rapid growth.

Figure 3.3: Household Debt to GDP (%) of Developing Countries



Source: McKinsey Global Institute (2010), Financial Stability Reports of National Authorities

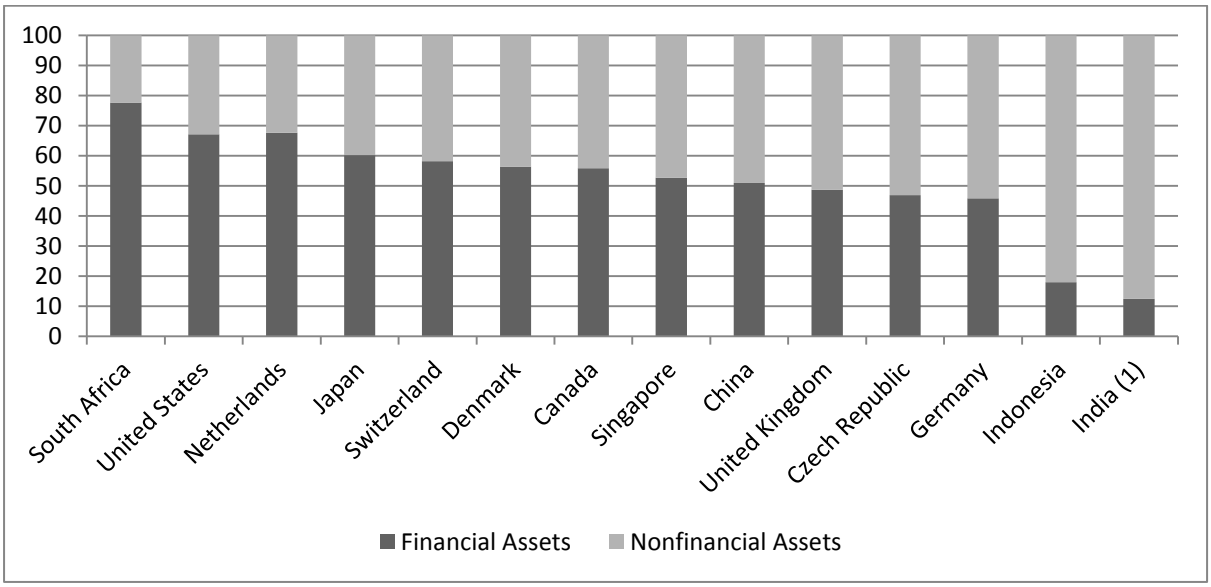
Note: (1) 2003–2010 data.

The figures indicate that the rapid rise of consumer credit and the increase in household indebtedness has become an important element of financialisation of personal income in developing countries. In the process, many transformations have occurred in the borrowing and saving patterns of households, meaning that financialisation of personal income has taken many forms depending on several factors. An analysis of advanced economies shows that financialisation of personal income not only refers to increased borrowing by individuals but also increased acquisition of assets. However, in the case of developing countries, the financialisation of individual income with respect to assets is a less prominent phenomenon.

Figure 3.4 displays the relative importance in 2010 of financial versus nonfinancial assets in the average household portfolio across a range of developed and developing countries, according to the data taken from Global Wealth Databook, released by Credit Suisse Research Institute (2011). As the figure shows, the breakdown of financial and nonfinancial assets differs markedly between developed and developing countries. Not surprisingly, the share of financial assets to total assets tends to be considerably higher in developed countries, with more than 50% held in the form of financial assets. On the contrary, in developing countries like Indonesia and India, the bulk of household assets

consist of nonfinancial assets, including housing, farms, and small business (Credit Suisse, 2011). In the case of European transition economies, such as the Czech Republic, nonfinancial assets again exceed financial assets. The large-scale privatisation of housing that occurred in these countries throughout the 1990s is an important reason for this.[46] Obviously, there are exceptions to this general pattern regarding the high share of nonfinancial assets in the portfolio of households in developing countries. Interestingly, South Africa had an exceptionally high share of financial assets in 2010—77%—exceeding most advanced economies. According to the report by Credit Suisse (2011), this high share of financial assets in the case of South Africa reflects a dynamic stock market, mature life insurance, pension industries, and low housing prices. Subsequent sections of this chapter will detail the composition of financial assets in developed and developing countries.

Figure 3.4: Share of Financial Assets and Nonfinancial Assets in the Average Household Portfolio (2010)



Source Credit Suisse (2011)

Note: (1) 2008 data

One of the key arguments of this study is that an analysis of the recent rise in consumer credit should account for both supply- and demand-side factors. On the supply side, the key issue is the credit extension from changes in the financial sector activities. This study particularly focuses on the banking sector rather than other financial institutions

[46] Except for the Czech Republic, data on transition countries are not available. Based on estimations, the Credit Suisse (2011) report stated that financial assets are largest relative to nonfinancial assets in countries where privatization was less complete, as in the case of the Czech Republic.

because especially in developing countries banks retain a dominant role in providing credit. With the exception of Latin American and a few Asian economies, the role of nonbank financial institutions in supplying credit is negligible (Mihaljek, 2006). On the demand side, in addition to the new macroeconomic policies, changes in conditions in the labour market and the retrenchment of public welfare state provisions are pivotal to understanding the rising demand for consumer credit. It is only by taking these several factors into account that an accurate analysis of why and how consumer credit has increasingly been integrated into the daily lives of people can be built.

3.3.2.1 Transformation of the Banking Sector Activities

One of the key points highlighted in the financialisation literature is how the developments in the financial sector created room for the expansion of consumer credits and paved the way for integrating individuals into finance through changes in their saving and borrowing patterns. Understanding new trends in banking sector activities requires an extension of the existing analysis into the banking system. As presented in Chapter 2, the major limitation of the mainstream view to the banking sector is its analysis of banks as financial intermediaries and ignoring their role in relation to the dynamics of capitalism. The political economy approach to the banking sector overcomes these limitations by analysing the banking sector in historical and social contexts. Section 3.3.1 points out the key role banks have played in managing the public deficit. This section examines the recent diversification of banking activities towards household finance by drawing on the political economy literature on banking.

Traditional banking activity encompasses taking deposits from customers and providing loans to enterprises. In this framework, the main income of the banking sector comes from the interest difference between deposits and loans. However, in the age of financialisation banks turned towards individual income as a source of profit (Dos Santos 2009; Lapavitsas, 2009a) by increasingly engaging in consumption, mortgage, and auto loans provision.[47] This took place first and foremost in developed countries but later banks in developing countries followed a similar pattern.

[47] Transformation of the traditional banking sector activities is not only confined to consumer lending activities. Banks started to offer a wide range of financial services related to both the transactions of households and open market operations. Through these new activities, they have raised fees and commissions which led to a rise in noninterest incomes in their revenue stream. Transformation of the banking sector activities has been an important characteristic of the financialisation process (Lapavitsas, 2009b).

In the context of core capitalist countries, the transformation of traditional banking sector activities has mainly been driven by the changing relationships between banks and industrial capital (Lapavitsas, 2009a). As the size of corporations grew, they managed to create their own funding opportunities (e.g. dependence on retained profits and funding from capital markets) in the late 20th century. This allowed for a decrease in their reliance on bank loans as a source of funding for investments projects. Thus, the transformation in the relationship between corporations and banks forced banks to seek alternative sources of income (Lapavitsas & Dos Santos, 2009). That is the underlying reason for the banks' need to seek out new activities. The technological advances in the last few decades that spread into the realm of finance also played a role in the process. In core capitalist countries, the increasing usage of securitisation has enabled the extension of consumer credit to broader segments of the society. With securitisation banks can regularly bundle the debt from credit users and sell it to investors in the securitisation market (Dymski, 2009).[48]

In the case of developing countries, the most important factors to consider are the developments related to their deeper integration into the world economy. In these countries, there have been changes in the corporate sector finance, as happened in developed countries. Nevertheless, these changes have been realised mainly due to corporations' increased access to foreign funding opportunities. The use of domestic capital markets in corporate financing has also increased in developing countries starting in the 1990s, though their role remains limited in comparison to advanced economies. This reflects the bank-based character of the financial markets in developing countries.[49]

Arguably, there are three essential factors that affected banking sector activities in developing countries in relation to their further integration into the world economy in the 2000s.[50] First, the process paved the way for increased borrowing opportunities from abroad by firms in developing country. According to the World Bank's report, *Global Development*

[48] As Dymski (2009) points out, securitization is not always necessary to extend the consumer credit market, such as with Turkey and Brazil.

[49] The debate on the optimal design of financial systems in the second half of the 20th century has mainly focused on the dichotomy between bank-based and market-based financial systems. Hall and Soskice (2001) described market-based financial systems as "liberal market economies" like in the United States and United Kingdom. Firms in market-based economies rely more heavily on bond and equity markets for external finance. In contrast, bank-based financial systems are often associated with "coordinated market economies" like in Germany and Japan (Hall & Soskice, 2001). They rely more on banks than financial markets for raising capital. In many developing countries bank-based financial systems are dominant.

[50] It should be noted that the factors can change from country to country. For instance, in the case of Turkey, declining incomes from financing the public deficit has been an important determinant of the process, as will be elaborated in the Chapter 5. While in Turkey's case the ratio of lending to public sector has declined, the opposite situation has occurred in other countries. "Banks in many Asian and central European economies have shifted lending from the public sector and corporations towards households and smaller firms, but in some Latin American countries the share of bank credit to the government has actually increased" (Mihaljek, 2006, p. 41).

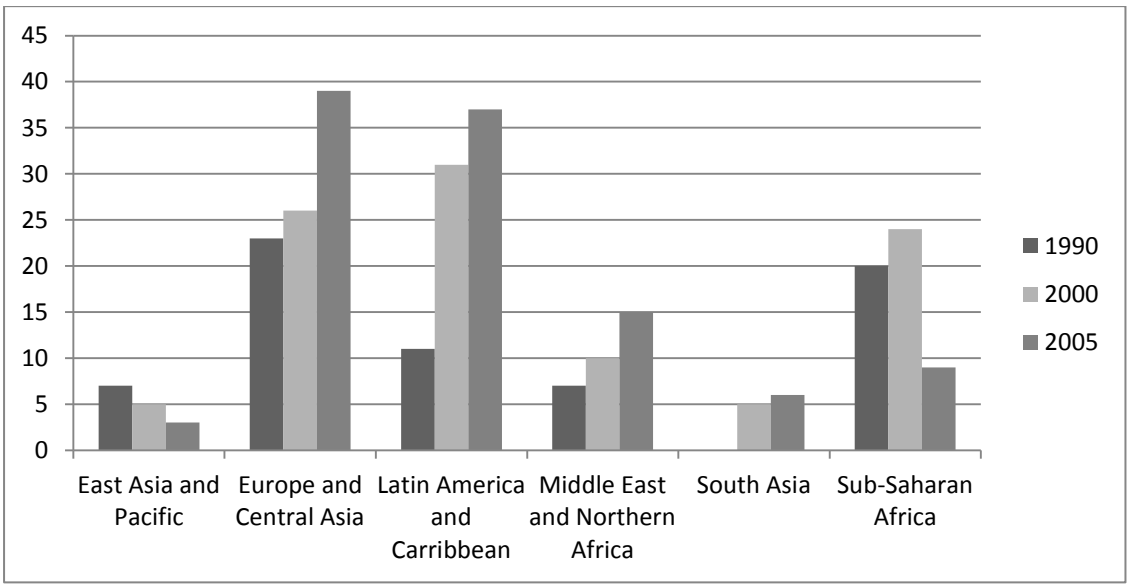
Finance 2007, corporate sector borrowing from international markets became a major characteristic of the global integration of developing countries in the 2000s. Lower international interest rates along with excess global liquidity conditions reduced the cost of external financing for developing-country corporations. As a result, they raised vast sums of funds from international markets. According to the report, firms in developing country mainly borrowed from global corporate bond markets, in particular from Eurobond and U.S. dollar bond markets. Furthermore, corporations also started to borrow more and more from foreign banks and foreign branches of domestic banks. The importance of this phenomenon in the context of this study is that the availability of alternative funding opportunities reduced corporate sectors' reliance on domestic bank loans. As a result, the share of corporate loans in relation to total bank loans declined (Mihaljek, 2006; Turner, 2006). This, in turn, promoted diversification of banking sector activities in developing countries with a focus on lending to households, like in developed countries.

Second, the banks of developing countries found greater access to foreign funding, which also contributed to the rise in consumer credit prior to the 2008 global crisis (Guo & Stepanyan, 2011). As mentioned in Section 3.3.2.1, deposits are traditionally used to fund credit expansion. Nevertheless, the growth of deposits decreased in many developing countries during the last decade even as there was a rapid rise in foreign funding opportunities as these countries increasingly integrated into the world economy. This created an opportunity for domestic banks to fund the rapid expansion of consumer credit. These trends have been witnessed especially in Central Europe and Eastern Europe, and in some parts of Latin America, South Africa, and Korea (Mihaljek, 2010).

Third, the entry of foreign banks into these countries has been an important part of the process. Prior to financial liberalisation, many Latin American and East Asian countries were dominated by public banks whose main orientation was to facilitate development policies (Dymski, 2009). The entry of foreign banks into the domestic financial markets was either partially or completely restricted. The financial crises in the 1990s and early 2000s played a pivotal role in the entry of foreign banks into the economies of developing countries. In the aftermath of the crises, major reforms and regulations were undertaken in the banking sectors of developing countries which were often designed and implemented in collaboration with the IMF. The emphasis of the international financial institutions, namely the IMF and the World Bank, shifted towards the importance of regulation in financial and banking sectors, especially following the 1997-1978 East Asian crises. Reform and regulation policies have promoted structural changes in banking sectors in terms of privatisation, consolidation, and

foreign bank entry.[51] One of the changes was that domestic banks were cheaply sold, partially or completely, to foreign owners. Figure 3.5 shows the rise in foreign bank assets in developing countries between 1990 and 2005.

Figure 3.5: Share of Total Banking Assets Held by Foreign Banks, by Region



Source: Claessens et al. (2008) World Bank staff estimates based on Bankscope.

Note: Claessens et al. (2008) identify 15 domestic banks in South Africa with asset coverage issues prior to 2004. When these assets are excluded from the sample, total foreign banking assets in total assets in the region increase from 21%in 1995 to 37% in 2006.

Stein (2010) gave a detailed account of the role of the World Bank in promoting foreign ownerships of banks in developing countries, stating that in the aftermath of the crises, the World Bank promoted the entry of foreign banks into developing countries as a source of stability. In the 1999/2000 *World Development Report* (World Bank, 2000), it was asserted that if carefully timed and if the economy could withstand the short-term disruptions, foreign banks had the potential to bring considerable long-term benefits, namely, transferring skills and technology, stimulating competition, lessening the effect of a macroeconomic shock in the host country, and reducing the need for local regulations. From a political economy perspective, such mainstream explanations offer little to no insights into the peculiar ways in which developing countries were affected by the entry of foreign banks.

[51] For an account of increased privatisation, consolidation, and foreign bank entry in developing countries with specific examples, see Turner (2006). An analysis of reforms, regulations, and structural changes in the banking sector and their implications are given in detail in Chapter 5 drawing on the Turkish banking sector's experience.

This is related to their ignoring specific institutional financial structures and socioeconomic and political circumstances of these countries. Furthermore, despite the increased presence of foreign banks in developing countries, there is no consensus on whether the foreign banks have brought the proposed benefits to host countries.[52]

What is important in the context of this dissertation is the role foreign banks played in the rapid expansion of consumer lending. Lending to individuals has become a major activity for many international banks in recent years.[53] There has been growing evidence of the foreign banks' focus on the consumer lending and mortgage credit in developing countries. For example, Lapavitsas and Dos Santos (2008) provided evidence on the orientation of foreign banks towards consumer lending in the Philippines, Mexico, and Brazil. Similarly, Dymski (2009) stated how Citibank in Brazil established a network of nonbank offices to sell high-risk and high-return credits to working people and retirees. Citibank also played a major role in issuing credit cards in East Asia (for example, in Indonesia) (Hanson, 2005). Rona-Tas (2009) analysed the rise of consumer credit in transition economies, (Poland, the Czech Republic, Hungary, Bulgaria, Ukraine, Russia, China, and Vietnam), arguing that the entry of foreign banks increased competition in the banking sector and paved the way for the growth of consumer credit markets. He also stated that the reluctance of elite customers to move from old banks they are accustomed to new ones led banks to target less affluent customers and increased competition in the sector (Rona-Tas, 2009). Section 5.3.4 of this dissertation provides data on Turkey's higher shares of consumer loans in foreign banks' portfolio relative to its domestic banks.

Overall, foreign banks have accelerated the banking sectors' heavy involvement in consumer lending in host countries. They did so both by targeting consumers themselves and by triggering competition in the banking sector as a whole. Easy availability of consumer credit as a result of the banking sectors' orientation towards personal lending is an important phenomenon in understanding the rise in consumer credit and debt. However, it does not account for why consumers took advantage of this available consumer credit. An overall understanding behind the dynamics of the recent rise in consumer finance necessitates considering both supply- and demand-side dynamics. The next section highlights the reasons

[52] Stein (2010) critically assessed the report by the World Bank on the impact of foreign bank entry on developing countries and suggested alternative empirical testing and case studies related to the subject. The evidence Stein provided illustrated that foreign ownership is associated with poor financial development, slower economic growth, and smaller share of lending to business.

[53] An account of the nine leading international banks' orientation towards individual lending can be found in Dos Santos (2009).

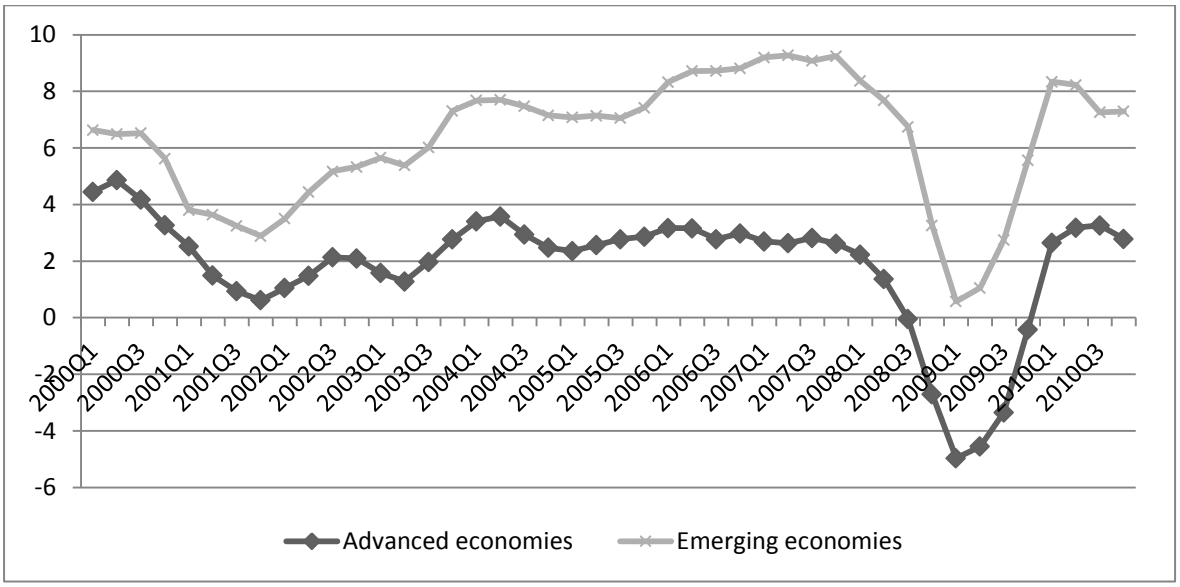
behind the increased demand for credit by focusing on developments in the labour markets and changes in the public provision system.

3.3.2.2 Changes in Macroeconomic and Labour Market Policies

Theoretically, consumer loans can increase welfare and facilitate budget management by releasing constraints on a budget in a given time. However, this study argues that an analysis of the implications of consumer credit necessitates considering a broader socioeconomic context. Under different socioeconomic conditions, consumer credit may be used for several reasons with various results. The mainstream approach mainly stresses the importance of low inflation and low-interest rate environments, higher income levels, and higher asset prices as contributing factors in the rising demand for household credit both in developed and developing countries (see IMF, 2006; Mohanty et al., 2006). The argument is that households simply react to the economic stimuli by increasing their demand for consumer credits. It is a fact that there have been profound changes in the macroeconomic policies of developing countries, contributing to the rise in demand for consumer credit.

As mentioned previously, price stability became the central objective of macroeconomic policies in the early 2000s, leaving aside whether this meant sacrificing the broader development goals and increasing the dependency of these countries on the external world. As a group, developing countries entered the decade with low inflation and interest rates. Further, until the recent global crisis, many developing countries experienced high growth rates (see Figure 3.6), mainly driven by increased exports, a surge in foreign direct investment, and increased remittances. Lower inflation and interest rates, combined with economic growth, have, in part, stimulated the demand for credit.

Figure 3.6: Real GDP Growth of Advanced and Emerging Economies, 2000–2010



Source: IMF

However, such an account by itself does not offer insights into the impact of the political and economic restructuring of the last three decades on individuals' need to borrow. The analysis of the rise in consumer credit requires a broader understanding of the structural transformations in an economy. Globally, the last three decades has represented neoliberal restructuring, that is, deregulation of finance, labour markets, and trade. The period has been characterised by the removal of state-guaranteed protections for workers; the dismantling of public provision of services, such as health and education; greater fiscal discipline, and greater discipline on workers. This dissertation argues that an examination of rising personal indebtedness in this environment needs to take into account the changing landscapes of work, pay, and social support systems; increasing flexibility in labour markets; and stagnation of real wages.

As mentioned previously, the 1970s were characterised by stagnation on a global scale. In the post-World War II era, productivity growth and its accompanying high wages were channelled into increased consumption (Cleaver, 1995). There was then a severe decline in the productivity growth starting in the mid-1970s. For example, the productivity growth in the United States was reduced by 50% and remained very low until the 1990s (Glyn, 2007). Because productivity growth is the key source of an increase in living standards, its decline intensified the conflict over the distribution of output (Glyn, 2007).[54] The 1980s and 1990s

[54] All these problems in the real sector are well documented in Glyn (2007).

witnessed the stagnation of wages which lowered the consumption aspirations of the masses. Loosening access to consumer credit partly relieved this pressure on demand.

Developing countries are a heterogeneous group and it is difficult to make generalisations for these countries. However, arguably, consumer credit was also utilised in many developing countries as a way to encourage consumption in the aftermath of the crises experienced in the late 1990s and early 2000s. In other words, household lending rather than corporate lending has led post-crisis recovery in many East Asian and Latin American countries (IMF, 2006; Hanson 2005). Hanson (2005) put forward that in some countries greater consumption was undertaken simply by issuing many more credit cards, with the expectation that the average default rate would be covered by the high interest rates charged. The analysis of the post-crisis Turkish economy provides an example of this phenomenon, as elaborated in detail in the subsequent chapters of this dissertation. Other notable examples are Malaysia and South Korea. In Malaysia, credit to households is seen as supporting private consumption and hence driving domestic growth. While prior to the 1997 Asian financial crisis the share of household bank credit in Malaysia was relatively small in comparison to credit extended to businesses, by 2007, its share accounted for 56.7% of total outstanding bank loans, and the annual average growth rate of consumer credit was 14.8% during the period (Endut & Hua, 2009). In Korea, as well, consumer credit snowballed rapidly after the 1997-1998 East Asian crises. Accordingly, household debt in Korea more than doubled between 2000 and 2008. As a result, the ratio of household debt to disposable income increased sharply from 76.8% in 2000 to 139.8% by the end of 2008 (Yoo, 2010). This rapid rise in personal debt in Korea was driven by the encouragement of consumption in the post-crisis recovery through the extension of consumer credit, including a major extension of credit cards.[55]

Banks in developing countries initially extended consumer credit to high- and middle-income households mainly in the form of housing loans; this will be discussed in the next sections. However, as banks in developing countries gained experience in consumer banking, they increasingly extended consumer credits to the low-income strata of society as well. Chapter 4 illustrates that in recent years the bulk of consumer credit in Turkey has been extended to low-income groups. Turkey is not an exception in this regard. In his analysis of the household debt in Korea, Park (2009) showed that the average debt stock of lower-income households grew faster than other households between 1998 and 2002. Dymski

[55] The massive credit card lending boom resulted in a severe credit card crisis in Korea in 2003. For details see Kang and Ma (2009).

(2009) elaborates on how Citibank set up networks of nonbank offices in Brazil to extend consumer credit to low-income people, the working class, and retirees. An important strategy in Brazil as well as in other Latin American countries is for retailers to offer store cards to low-income consumers who do not qualify for bank-issued cards. In doing this, retailers occasionally co-operate with traditional banks; for instance, banks may acquire a retailer's private card database in order to widen their customer database or to integrate the private cards with their own credit cards.[56] The focus on lower-income segments of the society in Latin America also encourages banks to simply merge with the retailers, leading to an increase in joint ventures between banks and retailers.

One key point in analysing the rising consumer credit and its extension to low-income people in developing countries is to consider that this trend has been accompanied by several labour market reforms that slowed wage growth and led to a growing number of irregular jobs. Deregulation of labour markets has been promoted in developing countries starting in the 1980s, as they increasingly integrated with the world economy and faced the challenge of high competition in the world markets.[57] Flexible labour markets and wage suppression were regarded as crucial steps in adapting to the changing conditions of the global accumulation process (Oğuz, 2010).[58] The demands of the external agents coincided with the interests of the domestic actors in this process. While international organisations were pushing for the implementation of labour-intensive, export-led growth strategies in developing countries, domestically the emerging export-oriented policy coalitions were also supporting openness to the world economy and labour market flexibility.

Although the purpose of labour market deregulation policies is to increase employment, there has been weak evidence on the benefits of these policies (Baker et al.,

[56] Arnfield (2011) and Mas and Almazan (2011) each give an analysis of the alternative service delivery channels that banks in Latin America (notably, Brazil, Peru, Colombia, and Mexico) have employed in the last decade. They state that a growing number of pioneering banks are pursuing banking beyond branches by embedding their services within normal retail channels. This enables them to include lower income segments of society into the financial system at a much lower cost.

[57] Deregulation of labor markets was first promoted in core capitalist countries as a part of the response to the structural problems associated with the falling rates of profit. It was argued that labour market deregulation would head off the feared unemployment problems, which then happened in the 1980s. For 15 European countries, the unemployment rate rose from 5.5 % to 10.5% between 1978 and 1984, and it remained near that level until 1998 (Baker et al., 2004). The policies advocated in *Job Study*, published by OECD in 1994 became highly influential. The document compared Europe with the United States, and stated that following the period of adjustment after the oil shocks, unemployment fell to much lower rates in the United States than in Europe. The report advocated that the reason for higher rates of job creation in the United States as compared to Europe was related to greater flexibility in the former. In this regard, it highlights increasing the flexibility in working time and labour cost as key measures to increase productivity and overcome unemployment (OECD, 1994).

[58] These changes in labour markets are also analysed with reference to the "new international division of labour" argument which came to the fore in the 1970s. Multinational corporations tried to reduce labour costs by shifting components of production to subcontractors in the developing world (see Fröbel et al., 1980).

2004). The deregulation policies implemented in labour markets have brought an increase in casual forms of employment such as temporary, part-time, and contract work. These precarious forms of work have resulted in increased job insecurity and growth in the number of low-paid work as well as increased work intensification. The financial crises that affected the developing world in the late 1990s and 2000s further accelerated the process of lowering the share of labour in overall income and increasing irregular types of works. More specifically, they paved the way for extracting more surplus from labour. Onaran (2009) demonstrated that in Korea, Turkey, and Mexico, the increased frequency of crises in the 1990s and 2000s resulted in a downward pressure on labour. Further, the fiscal contractions and financialization have also intensified the distributional conflicts in those countries affected by the crises (Onaran, 2009). Koo (2007) discussed Korea as an example of the acceleration of the labour market reforms in the aftermath of the 1997-1998 East Asian crises. He stated that starting in 1998, Korean firms began to search for ways to reduce labour costs and increase flexibility in labour utilisation. Koo points out the increase in the number of workers hired on a nonregular or nonstandard basis (temporary workers, subcontract workers, dispatch workers, and daily hires, for example) in the aftermath of the crisis.

What matters more, for the purpose of this paper, is that job insecurity and increases in flexible and low-paying jobs have created room for increasing demand for credit. As discussed in Chapter 2, labour is in the essence of the value, which is what makes consumer credit possible. Workers receive credit against the collateral of future wage. In other words, extension of credit is conditioned on the future potential of labour to produce value. Nevertheless, in the current phase of capitalism, the realisation of labour power has increasingly become subject to unstable determinations, as job insecurity in the labour markets intensified. Although workers take out a credit anticipating paying it back on future income, their ability to do so is highly undetermined because casual workers do not have job guarantees. This situation decreases their potential to make credit repayments on time and hence triggers a cycle of debt as additional credit is required to repay the outstanding loans.

3.3.2.3 Changes in the Public Welfare and Housing Policies: Incorporation of Financial Markets into the Provision System

From a mainstream point of view, acquiring debt might allow for the possibility of investing in real and financial assets. Expansion of assets can allow gains in rising asset prices in stock and property markets (Rosenberg, 2004). Especially, during the U.S.

household credit boom in the last decade, there was widespread consensus that the debt burden of a household would not increase if its assets grew in line with its debt.[59]

In the last three decades, housing and pensions have become two notable examples of the financialisation of household assets, particularly in the United States but also in other advanced economies. Their growth has become an instrument for financial innovations, such as securitisation, and an important source of financial income. This phenomenon is closely linked to the transformation of the public welfare system. The neoliberal era has witnessed the replacement of the private sector by the public sector in many realms such as housing, health, and social security. As Fine (2009, p. 5) aptly puts it: "any form of privatisation has the potential to induce financialisation since it creates a stream of income revenue that can be consolidated into assets that can become part of a derivative that is speculatively traded". Developing countries have also been influenced by such transformations in public welfare systems, albeit with some differences.

Starting with housing, the *IMF Global Financial Stability Report* (2006) provides data on the share of housing loans (as part of total loans) in several developed and developing countries. For the "mature-market" economies, housing loans account for approximately 70–80% of the total household loans. The average share of housing loans in total household loans is relatively low for rapidly growing emerging markets: 27.9% (emerging Europe), 37.5% (Latin America) and 54.2% (emerging Asia) at the end of the year 2005 (IMF, 2006). The differences among and across developed and developing countries have to do with several factors specific to the country under consideration. The factors include the role of the state in housing provisions; dominance of social customs, such as practice of receiving a house from parents as gifts or dowries; and prevalence of the informal employment, which precludes the extension of housing loans.[60] Although the ratios of housing loans to GDP are lower in

[59] In a speech on February 23, 2004, Alan Greenspan, U.S. Federal Reserve chairman, stated that household debt burden could not be considered to be increasing if any rise in debt were matched with an accumulation of financial assets. "In evaluating household debt burdens, one must remember that debt-to-income ratios have been rising for at least a half century. With household assets rising as well, the ratio of net worth to income is currently somewhat higher than its long-run average. So long as financial intermediation continues to expand, both household debt and assets are likely to rise faster than income. Without an examination of what is happening to both assets and liabilities, it is difficult to ascertain the true burden of debt service. Overall, the household sector seems to be in good shape, and much of the apparent increase in the household sector's debt ratios over the past decade reflects factors that do not suggest increasing household financial stress. And, in fact, during the past two years, debt service ratios have been stable" (Greenspan, 2004). Nevertheless, as the 2008 crisis proved, it was not possible to sustain the boom in the housing market without having real economic growth underlying it.

[60] There are studies in the literature which analyse the housing provision in different societies. An example is the study of Ronald (2007), in which he compares differences and similarities within and between Anglo-Saxon and East Asian societies.

developing countries, the growth rates of these loans have been considerably higher in the last decade.

This rapid growth in housing loans in developing countries took off with a corresponding sharp demand for housing. An important determinant of this rise was the retreat of states from social welfare coupled by a shift towards market-based mechanisms for the provision of housing, such as the abolishment of public rental supports and reductions in other kind of subsides. In many developing countries, and especially in Eastern Europe after 1990, the withdrawal of the states from housing markets was undertaken with drastic privatisation measures.[61] In some countries such as Brazil and Malaysia, banks were encouraged to make housing loans of a certain amount, by and large to low-income borrowers (IMF, 2006). Under the circumstances, as Aalbers (2008, p. 151) puts forward, "the financialization of home forces more and more households to see acquiring a house not just as a home, as a place to live, but as an investment, as something to put equity into and take equity from". Hence, a house began to be treated as a financial asset and not just a place to live.

Pension funds represent another important aspect of the issue as they have increasingly been privatised and financialised, especially in Anglo-American countries (Blackburn, 2006). Retreat of states from pension provisions has created room for privately managed funded accounts. This represents a significant opportunity for financial institutions to earn interest spreads, fees, and commissions directly from pension contributions (BWP, 2010). In this regard, privatisation of pension funds has played a central role in financialisation as it created a stream of revenue that can be turned into assets and traded in markets. For wage earners, this has implied a process which connects their future to the uncertainties of the financial markets and makes them dependent on the financial markets for their security. Hence, financialisation of pension funds has become a key feature of the current era, especially, in the United States, United Kingdom, and other developed countries.[62] However, this aspect of financialisation has been less prominent in developing countries.

In many developing countries, pension fund systems (also health systems) have been privatised following the IMF and World Bank prescriptions (BWP, 2010). The World Bank's

[61] According to the *IMF Global Stability Report April 2011*, there has been a rapid growth in residential mortgages to GDP in many emerging Europe countries. For example, between 1999 and 2009, mortgage debt to GDP increased from 4% to 44% in Estonia, 0.7% to 36.6% in Latvia, and 1.1% to 16.7% in Hungary (IMF, 2011).

[62] Clearly, there are diversities as well as similarities within developed countries based on their provision systems, other institution, and social and cultural factors.

publication, *Averting the Old Age Crisis* (1994) was decisive in initiating the call for new pension reforms in developing countries. The new approach to pension reforms included three essential elements: reducing the tax-financed public provision, increasing the role of mandatory pension savings in privately managed saving accounts, and supplementing the system by voluntary savings, in which workers and retirees bear the investment risks on their savings (World Bank, 1994). The major issue was a gradual shift from a "defined benefit" to "defined contribution" system, so that retirement incomes would be financed through investing the pension contributions in financial assets. As a result of the reform initiatives, Latin American and Eastern European countries, especially, have gradually moved towards a "defined contribution" system.[63] Nevertheless, even in those countries pension fund assets under management lagged behind those in Anglo-American countries, with the notable exception of Chile, where the pension fund assets reached 59% of GDP at the end of 2005 (De Mesa & Mesa-Lago, 2006). Furthermore, in many East Asian countries, social security savings schemes are still administered by the public sector. It should be added that substantial losses on privately managed pension funds during the global crisis in 2008 led to questioning the efficiency of these institutions in many developing countries (BWP, 2010).[64]

Hence, while in developed countries incorporation of financial markets into the provision system, notably pension, has been an important feature that affected financialisation of personal income, this has been less prominent in the case of developing countries. Further insights into the financialisation through acquisition of assets in different countries can be gained through examining the breakdown of household financial assets.

Figure 3.7 shows the breakdown of household financial assets for selected economies in three categories: currency and deposits ("liquid assets"), equities (all shares and other equities held directly by households), and other financial assets. The composition of financial assets differs considerably across countries depending on a wide range of factors, namely, spending on public goods such as education and health, development of the financial system, and trends in the housing markets.

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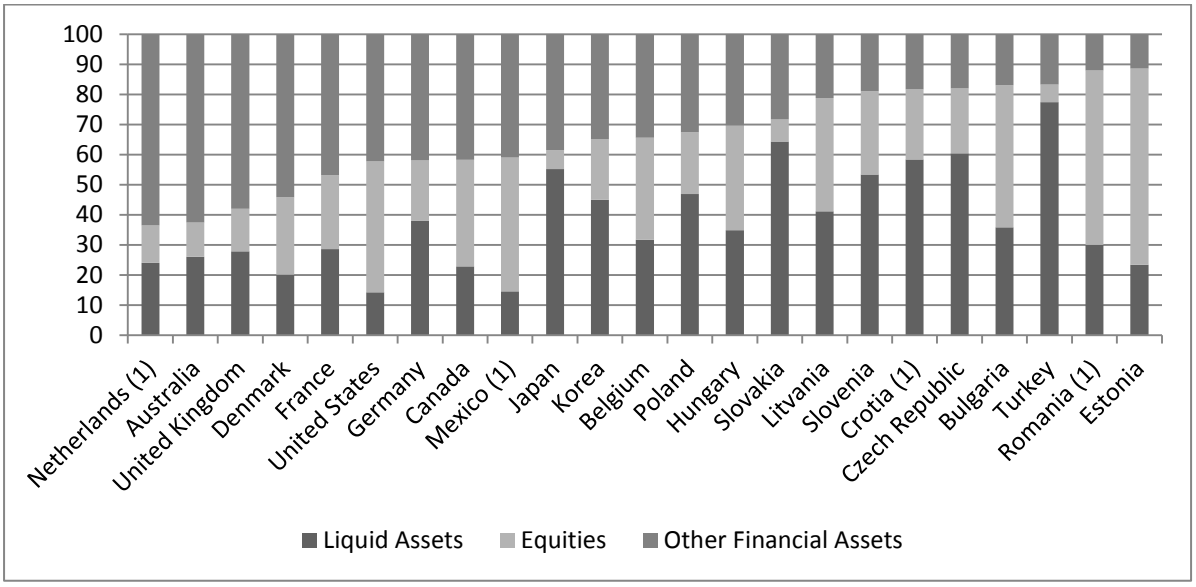
[63] The Chilean reform of 1981 has been used as a model by many developing countries. The model was based on a larger role of markets under which workers were required to contribute a fixed share of their salary to individual accounts, managed by private pension management firms (BWP, 2010). "Between 1981 and 2006, Chilean workers contributed approximately $50 billion from their salaries towards the private pension schemes, of which private pension managers and related insurance companies kept one third as commissions and profit" (BWP, 2010: 3).

[64] The Bretton Woods Project (BWP, 2010) mentions the rise in public campaigns, protests, and social movements against privatised models of pensions, and also health, in many developing countries and gives an account of the reforms back towards public pensions in Chile and Argentina.

Figure 3.7: Breakdown of Financial Assets in the Household Portfolios Worldwide (2010)



Source: Credit Suisse (2011*)*

Note: (1) 2009 data

Broadly speaking, the relative importance of currency and deposits is higher in developing countries. Notably, in Turkey, liquid assets constitute the bulk of household financial assets. In many developed countries, other financial assets make up the major component of household financial assets. The reserves of life insurance companies and pension funds form the largest component of "other financial assets" in most countries (Credit Suisse, 2011). On that basis, Figure 3.7 provides evidence on the differences between developed and developing countries with regards to financialisation of household assets. The low share of assets in pension and insurance funds in the household balance sheets in developing countries supports the argument that the financialisation of personal income in developing countries has been more in the form of borrowing rather than asset acquisition. Arguably, in those countries, privatisations in the public provision system and accompanied cuts in the welfare spending on health, education, and social security affected households more through deterioration in their budgets, leading to increasing needs for borrowing.

Overall, this dissertation argues that rising demand for consumer credit needs to be analysed by considering the impacts caused by the decline in labour share, deregulation of labour markets, and privatisation of public goods. Bonefeld and Holloway (1995) described the mutual relationship between all these factors and the credit expansion as:

> The unregulated expansion of credit and the abrasive attack on the working class are closely interconnected. The more the dependence of capital over labour was sustained by credit, the more the state had to guarantee credit through the eradication of public deficits. The more the state cut back on welfare spending, on housing, health and social security, the more people were forced into debt in order to maintain a tolerable standard of living. The more the whole existence of capital was based on credit, the more capital needed to push changes in working practice, changes in technology and intensification of work as well as reductions in state expenditure in order to sustain the validity of credit. The more the state sought to reduce its social expenditure, the more private debt became means either of securing the newly-won property rights or of sustaining basic subsistence levels. (p. 222)

The next section draws attention to the fact that the extension of consumer credit to broader segments of the society represents a transfer of income from wage earners to financial institutions. It also highlights that the rising indebtedness of workers has a disciplinary effect on labour.

3.3.3 Implications of Rising Personal Indebtedness

As presented in Chapter 2, in Marx's own writings, consumer credit to workers in the modern capitalist system is conceptualised as "secondary exploitation". Since there are controversies over the use of the term exploitation in this context, in this study the expanded role of consumer credit in the contemporary era is conceptualised with reference to the term "financial expropriation", following Lapavitsas (2009b).[65] Financial expropriation is used to describe the partial appropriation of wages by financial institutions. The argument is that financial expropriation has an exploitative feature which has become more prominent during the course of financialisation.[66] The work of Bryan et al., (2009) also conceptualizes interest

[65]Before going further, it should be clarified that though having exploitative features, "financial expropriation" is distinct from the exploitation which takes place in the sphere of production and which remains the key feature of a capitalist economy. Dymski (2007) also analysed the expansion of consumer credit, especially to low-income people, and he referred to the process as financial exploitation. In this dissertation, the notion of financial expropriation is preferred in order to preclude a confusion of the process from the exploitation that takes place in the sphere of production.

[66] In a number of countries, there has been a rapid increase in the proportion of income transferred to financial institutions. In Korea, for instance, the proportion of income dedicated to paying interest and principal increased from 13% in 1998 to 23% in 2004 (Park, 2009). Especially among low-income households, debt service burden constitutes a significant share of income. In Hungary, mortgage interest payments among the poor represent

payment on consumer credit from a similar perspective stating that living standard of households is determined by what remains from wages after the interest payments are made. Such an analysis of interest payment on consumer credit was later criticised by Fine (2009). He claims that the interest payment on consumer credit does not represent a deduction from wages. He relates his argument to a theoretical discussion on value of labour power and supports it by drawing an analogy between taxes and interest on consumer credit. To Fine (2009), in both cases the value of labour is determined by what is left to wage earner after these payments are deducted from the wages. Even if there is an ex post deduction from wages as in the case of interest payments, this is related to the moral and historical element of value of labour power in relation to the changes in the consumption pattern and also the changes in the way which consumption goods are acquired. As such, if housing and other needs of wage earners are now met by purchases through credit than this implies that there has been a shift in the form taken by the moral and historical elements that influence the value of labour power. To Fine (2009), financial expropriation cannot be generalised and conceptualised in terms of deductions from the value of labour power because there are workers and others who take advantage of credit offers. To this view, cost of buying something on credit would be implicit in wages.

The important point to consider is that financial expropriation is very much related to the way in which the relationships between these borrowers and financial institutions, and banks in particular, have changed. It is obvious that if one uses loans instead of earned money to buy a house, for instance, than this will have a price. What makes this exploitative is the unequal relationship between banks and wage earners, as already discussed in detail in Chapter 2. Drawing insights from Dos Santos (2009) and Lapavitsas (2009b), this section argues that this already unequal relationship has deepened in the age of financialisation and it has become systematic. As analysed in the previous section, in the age of financialised capitalism, banks have increasingly turned towards personal revenue of workers as a source of profit in both developed and developing countries. This process has been speeded along with technological innovations and advanced technologies. Together with developments in the new information technology and advances in risk management techniques, it has become easier for banks to obtain information about the creditworthiness of prospective borrowers. As a result, they have an advantageous position over their customers. In such a framework, extending credit to vulnerable consumer groups, who are not able to repay in full outstanding

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more than 10% of their income, while in Latvia, the same figure is 15%, according to the data from the EU Survey on Income and Living Conditions, presented in a study by the World Bank (Tiongson et al., 2010).

balances and therefore must revolve their debt, has become highly profitable (Montgomerie, 2008).

The changes in the conditions of wage earners have also had implications for their relationship with banks. They have increasingly become disadvantaged with banks as a result of their increased dependency on credit for consumption, in relation to the factors presented in detail throughout the chapter. Trying to cope with the deterioration in their financial situation and with growing income instability, wage earners have increasingly been driven towards borrowing, which has become a primary way to meet their consumption needs as well as their demand for houses, cars, and so on. These developments on both sides of lender borrower have led to the deepening unequal relationship between the two parts. Arguably, the situation has created room for financial institutions to determine the rules of the financial transactions according to their own interests. As discussed in Chapter 2, this aspect of borrowing is quite important to understanding the nature of borrowing in the financialisation which cannot be evaluated by a neoclassical understanding of consumer credit.

Furthermore, the remarkable rise in workers' indebtedness in the current era also paves the way for an increased dependency of labour on capital. As finance has developed as a means of paying for basic needs, new dimensions are added to the relations between capital and labour (Bryan et al., 2009). Workers have become more dependent on capital with the rise of indebtedness, while debt has restrained the chance to implement social, economic, and political power. As Bonefeld (1995) indicated in discussing debt in Britain in the 1980s and 1990s, personal debt creates opportunities for the imposition of discipline and control:

> Indeed, the politics of debt amounts to an attempt at disciplining social relations to monetary scarcity and a life of hard and unrewarding labour to sustain basic needs. The incentive not to endanger the bases of life, such as housing, education, health, clothing, heating, and so forth, helped to undermine resistance to wage reductions and the introduction of new working practices…social resistance against a policy of state austerity was replaced by individualised struggles to maintain existing positions of employment, income and conditions. (p. 69)

In this sense, debt contributes to the persistence of low wages and labour costs (Barba & Pivetti, 2009). The burden of servicing debt forces workers to accept longer work hours and harder working conditions. Moreover, being in debt has the potential to bring more

workers into the market. For instance, women might enter the labour force to help with their families' debt burden. The fieldwork analysis in Chapters 7 and 8 provides evidence of this.

3.4 Conclusion

This chapter started with a clarification of how the term financialisation is employed in this study, as there is a range of alternative usages of this term in the literature. Instead of giving a broad overview of these alternative approaches, attention is paid to the way in which the concept should be used to build a coherent analysis of the particular aspect of financialisation: the involvement of households and individuals with the financial system. The fundamental issue underlying Marxist orthodox literature on financialisation is their exclusive focus on the problems of the real economy as the determinant of the process. The alternative approach taken in this study attempts to build an analysis by drawing on the dialectic relationship between finance and the real economy. It is in this context, the study has undertaken an analysis of the multidimensional transformations that have taken place in the economies and societies of both industrialised and developing countries. In doing so, it aims to shed light on the implications of the increased use of consumer credit which is a particular characteristic of the financialisation era.

Throughout the chapter, financialisation has been particularly analysed with reference to the experiences of developing countries. Although financialisation took off in developed countries, developing countries have also been involved in the process. In this sense, the debt crisis of the early 1980s played a crucial role. Market-based solutions to the crisis were used as powerful tools to restructure developing countries and to adapt them to the requirements of the international financial architecture. Debt restructuring under the Brady Plan pushed for financial liberalisation reforms in Latin American debtor countries from 1989 onwards. A secondary market in sovereign debt started to develop as default loans were turned into bonds and traded in secondary markets. This development witnessed the rise of banks as major players in financial markets as they have increasingly engaged in speculative activities.

The Brady Plan also laid the foundation for capital account liberalisation in developing countries. Financing public debt through bonds necessitated adopting the norms of financial liberalisation to maintain access to capital. In this regard, the 1990s were characterised by a surge in capital flows to developing countries. After an interruption between 1997 and 2001, due to the crises in several developing countries, the capital flows accelerated again. However, having experienced sudden capital outflows with devastating

impacts, this time developing countries adapted a reserve accumulation strategy as a precautionary measure. The aim was both to prevent a sudden reversal of capital flows and to reduce exchange rate instabilities. For this study's point of view, one of the most important consequences of the reserve accumulation strategy was its role in paving the way for the growth of the domestic debt market. To offset the inflationary impact of domestic monetary growth, central banks sterilised their acquisition of reserves. Increased issuances of public securities led to increased trading activities in the debt markets of "emerging market economies".

While the growth of the domestic debt market is an important dimension in the financialisation of developing countries in the 2000s, the rise in consumer credit and increased involvement of individuals in financial affairs constitutes another important aspect of the phenomenon. Building on the theoretical framework set out in Chapter 2, this chapter has focused on the importance of conceptualising the rise in consumer credit within the specific historical and socioeconomic contexts of the financialisation era. It lays emphasis on both the supply- and demand-side determinants of the rise in consumer credit and indebtedness. On the supply side, there are the developments related to the corporate and banking sectors. First, increased access to international financial markets has reduced large corporations' reliance on domestic banks. This forced banks to look for alternative ways to earn profits. Second, with financial expansion in the world economy, foreign funding opportunities for banks have increased, creating room for banks to fund consumer credit expansion through alternative sources. Furthermore, the entry of foreign banks into developing countries has given rise to diversification of banking activities with a focus on consumer lending. On the demand side, apart from macroeconomic stability and high growth, the deregulation of labour markets and the changes in welfare policies should be considered in order to have an accurate understanding of the rise in consumer debt. Globally, the last three decades has been marked by changes in labour markets and welfare policies. Stagnation of wages, rising uncertainty in the labour markets, and privatisation of public goods increase workers vulnerability and thus their need for borrowing. In this context, consumer credit has increasingly become a means to meet daily expenses.

In discussing the characteristic of lender–borrower relations via consumer credit, this chapter has benefited from the concept of financial expropriation put forward by Lapavitsas (2009a). The term implies that, especially with the expansion of credit to wage earners, it has become possible for financial institutions to extract profits directly out of wages. The phenomenon has an exploitative aspect, as highlighted in the discussion in this chapter on the

deepening unequal relationship between wage earners and banks. The main contribution of this dissertation to this discourse is that it provides evidence on the changing nature of the relationship between lenders and borrowers regarding consumer credit transactions in the developing country context, and this will be further detailed in Chapters 8 and 9 which analyse the fieldwork carried out in Turkey.

A final point highlighted in this chapter is the different forms that the financialisation of personal income can take related to the socioeconomic conditions specific to each country. For instance, in developing countries, financialisation of personal income is more in the form of borrowing rather than investing in financial assets. In contrast, financialisation of personal incomes in advanced economies involves greater acquisition of assets, such as pensions and money funds. The differences in the ways individuals have experienced changes in their financial affairs are related to the socioeconomic context, culturally driven factors, and state policies in each country. It is in this context the next two chapters discuss the dynamics of the rise in consumer credit in developing countries by drawing on an analysis of the developments in the Turkish economy.

Chapter 4: Turkey's Financial Liberalisation of Its Economy and Transformation of Its Banking Sector Activities in the Aftermath of the 2001 Crisis

4.1 Introduction

As stated in Chapter 2 in presenting the theoretical framework of the dissertation, a coherent analysis of the rise in consumer credit and personal indebtedness requires a broad look at the socioeconomic, political, and historical dynamics and capital accumulation process of any country under consideration. This chapter, therefore, presents an analysis of the developments in the Turkish economy since the 1980s, paying particular attention to the years after the 2001 crisis era, when household indebtedness gained prominence.

Analysing these developments illustrates in which particular ways financial liberalisation and integration into the world economy shaped Turkey's financial institutions and influenced its financialisation process. Turkey's attempts to liberalise its financial system began in the 1980s as a response to its foreign debt repayment problems. Initially, the reforms entailed successive attempts at deregulating interest and foreign exchange rates. Various other reforms were implemented throughout the 1980s; however, the major change came as a result from shifting public sector deficit financing from the Central Bank to commercial banks in the mid-1980s. Before the 1980s, fiscal deficits were frequently financed by direct monetization through the Central Bank. From the mid-1980s onwards, default-free, tax-exempt, and high-yield government securities became the most attractive and safest investments for the commercial banks (Öncü & Gökçe, 1991). Turkey's increasing integration into the world economy through its opening of capital accounts deepened the shift in the 1990s. The public sector deficit thus began to be increasingly financed through commercial banks which borrowed from abroad. Given the high interest rates on government bonds, this resulted in a systemic increase in the public deficit and need for short-term domestic borrowing. Ensuring a continuous flow of short-term resources to finance growing public expenditures and avoiding capital flights became priorities for economic stability. The increasing inflow of foreign capital led to overvaluation of domestic currency, so Turkey's account deficit widened. Like many other developing countries, Turkey's economy has exhibited volatile growth since the late 1980s that has been associated with boom–boost cycles in capital flows, which led to its major financial crises in 1994 and 2001.

After analysing the major developments in the financial markets, this chapter highlights Turkey's development of its domestic public bond market, its increasing dependence on capital flows, and its widening current account deficit as typical features of the economy, characterising its financialisation process in the 1990s. What is important for our purpose are the changes that occurred starting in the late 1980s as the banking sector shifted from conventional banking operations, that is, lending to enterprises, to financing the public deficit by investing in treasury bills and government bonds. This is a vital aspect of financialisation of the Turkish economy. The situation resulted in a remarkable income transfer from public resources to the private sector. The major beneficiaries in this change were Turkey's large conglomerates because of their interlocking ownership of both banks and corporations.

Financialisation in Turkey acquired a new characteristic in the 2000s: a rise in household debt which is the main concern of this dissertation. This dimension of the credit phenomenon has not yet had enough attention paid to it in the literature. The crisis of 2001 had a severe impact on the Turkish economy, especially on the banking sector, which held 87% of the total assets in the Turkish financial sector. In the aftermath of that crisis, there were structural changes made in the sector, and banks experienced significant increase in financial depth and intermediation indicators as will be presented throughout the chapter. Some of this expansion was derived from the rapid surge in consumer-related banking activities, which was, and continues to be, reflected in the rapid rise in household indebtedness.

The underlying broader reasons behind the rise in household indebtedness will be elaborated in Chapter 5. Chapter 4 gives a macro picture of the growing scale of consumer loans and credit cards. It argues that the sharp increase in consumer credit exhibits important weaknesses. First, strong growth in consumer credit is associated with a rising household service debt burden. This implies that households have been transferring an increasing percentage of their income to the financial sector in the form of interest payments. The analysis shows that excessive interest rates, especially on credit cards, have played an important role in the rise of the consumer debt service burden. While the literature suggests that greater interest payments can be counterbalanced by greater earnings in financial assets, this does not seem to be the case in Turkey, given the increasing household leverage ratio. Second, remarkable rise in household debt has been accompanied by a sharp decline in household savings, imposing constraints on future increases in living standards. Third, as

credit has been extended primarily to low-income wage earners in recent years, there has been also a rise in nonperforming loan ratios.

This chapter proceeds as follows. Section 4.2 gives an overview of the liberalisation of the Turkish economy in the post-1980 period, focusing on the crucial role played by the banking sector in financing the public deficit. Section 4.3 provides an overview of the events leading up to the 2001 crisis, highlighting the weaknesses of the banking sector. Section 4.4 looks at the dynamics of the banking sector post-2001, specifically focusing on banks' increased involvement in providing consumer credit. Section 4.5 analyses the dynamics of the financialisation of household income in Turkey and discusses some of the issues in providing consumer credit in the last decade. Section 4.6 concludes and gives a layout for the chapters that follow.

4.2 Liberalisation in the Post-1980 Era and the Role of Banks in Financing Turkey's Public Deficit

The 1980s marked structural changes in the Turkish economy as a whole. The decade was characterised by a shift from an Import Substitution Industrialisation (ISI) strategy to an Export Oriented Industrialisation (EOI) strategy in the real economy. In the 1960s and 1970s, the capital accumulation regime was characterised by the ISI. The aim was to develop Turkey's domestic industry and to create a financial system compatible with the needs of the newly maturing conglomerates. The banks were the dominant actors in the financial sphere and they were under the strong control of the state. Interest rates, loan limits, and exchange rates were all determined by the government to meet the financial requirements of protected industries. Nearly 75% of the loanable funds were allocated as directed credit (Denizer, 1999). As such, there were tight "relational" networks between banks, industry and the state during that time (Aybar & Lapavitsas, 2001a). However, problems with the capital accumulation process in the late 1970s forced structural changes in the financial markets in the 1980s.

The ISI strategy reached its limits in the late 1970s. As the protectionist trade regime of the 1960s helped grow Turkey's industries, by the beginning of the 1970s, the conglomerates were now mature, and demanded extra funding opportunities (Ercan, 1998). Beginning in 1976, financing industrial investment became increasingly difficult (Yeldan, 1995). These economic difficulties were exacerbated in the late 1970s when the economy was

hit by oil shocks. Because of severe shortages of foreign exchange, Turkey fell into foreign debt payment problems.

Throughout the 1980s, many developing countries adopted trade and financial liberalisation polices, and Turkey was no exception to the rule. Several economic reforms were implemented in Turkey in the 1980s to overcome shortcomings in its economy. The main goal was to convert the economy from an import substitution regime to an export-led one. This was supposed to integrate Turkey's big conglomerates into the world economy and to overcome the foreign exchange constraint. International financial institutions, namely, the IMF and the World Bank, were involved in the neoliberal restructuring process of the economy. Initially, foreign trade was liberalised in 1980. This was followed by several other financial liberalisation measures, starting with removing interest rate controls in 1981. The next step was the liberalisation of the foreign exchange trade in 1984 which allowed residents to hold foreign currency deposits in domestic banks. In 1985, government securities auctions were introduced, and the government began to issue treasury bills and bonds to finance its budget deficit. In 1986, the interbank money market was created to facilitate asset liability management and the Istanbul Stock Exchange was reopened. In 1987, the Central Bank started open market operations.

As a result of these changes, banking sector activities became diversified in the 1980s. Banks started to operate in capital markets, to purchase government debt instruments (GDIs), and to engage in foreign exchange transactions. Banks also began to offer new services such as extending consumer loans and credit cards, establishing ATMs (automatic teller machines), consumer banking, introducing leasing, factoring, swap, forward, future and option (BAT, 2008). In this sense, it is safe to argue that finance was introduced into the daily economic life in Turkey in the 1980s (Ertürk, 2003).

As stated in Chapter 3, according to McKinnon-Shaw hypothesis, financial liberalisation and deregulations of interest rates are assumed to result in an increase in savings and a more efficient allocation of resources. This is then expected to promote economic development through higher levels of investment and growth. However, as demonstrated by Akyüz (1990) and Balkan and Yeldan (2002), the propositions of the McKinnon and Shaw hypothesis are in contradiction with the financial liberalisation experience of the Turkish economy. Turkey's results do not conform to expectations regarding a shift of portfolio selection from "unproductive" assets to those favouring fixed capital accumulation and economic growth. In the case of Turkey, foreign exchange deposits and public securities became forefront in the financial deepening of the economy in the post-

liberalisation period (Balkan & Yeldan, 2002). In contrast to the hypotheses just described, the era was characterised by increasing disintermediation in the banking sector. Specific social, political, and historical factors continued to play paramount roles in the interactions between banks, industry, and state in the Turkish economy (Aybar & Lapavitsas, 2001a).

The major development that shaped banking sector activities starting in the late 1980s was a shift in financing the public deficit from the Central Bank to the commercial banks. In the initial phase of liberalisation in the 1980s, high interest rates, devalued exchange rates, and tax rebates exacerbated the public deficit and led to a rise in the Public Sector Borrowing Requirement (PSBR). While the ratio of PSBR to GNP was 4.2% on average between 1981 and 1986, it rose to 8.6% between 1987 and 1993.[67] The main beneficiaries of the financial liberalisation were the banks. As Öncü and Gökçe (1991, p. 115) put it: "Riding on the wave of domestic borrowing, coupled with the concomitant inflow of international funds, Turkish banks have found the new era of de-regulation highly profitable".

Boratav et al. (2001) aptly stated that Turkey's decision to finance its PSBR by issuing GDIs instead of taxing capital was a strategic one. The crisis that the economy encountered in the second half of the 1970s due to the foreign exchange constraint had deteriorated the fiscal positions of Turkey's large corporations. Under these crisis conditions, domestic capitalists had difficulties paying their taxes. The government preferred to find alternative ways of raising funds, so the Treasury started to auction government securities in 1985. Banks bought the majority of the GDIs issued, which remains the case today. According to Treasury statistics, the ratio of domestic debt financed by banks was 90% in 1988.

By the end of 1980s, it became impossible to sustain the existing export-led regime which was dependent on export promotions, depreciation of the domestic currency, and wage suppression (Boratav &Yeldan, 2002). As a result, in 1989, capital account liberalisation was introduced in Turkey, which was supposed to facilitate financing of the increasing deficit. Nevertheless, in contrast to the expectations, it worsened the fiscal problem. The government now had to pay higher interest rates on public securities than on the easily accessible international funds (Akyüz & Boratav, 2003). Further, throughout the 1990s, funds obtained from abroad at favourable rates became an important source for banks (in addition to deposits) and these funds were invested in high-yielding government debt instruments. This implies the public sector replaced direct borrowing from external markets with indirect

[67] Data is from the Ministry of Development, Economic and Social Indicators, see <http://www.dpt.gov.tr/Kalkinma.portal>

borrowing through domestic agents. The result was a remarkable rise in public debt stock. The main characteristic of this domestic debt stock was its short-termism which resulted in a trap of short-term rolling of debt, which can be described as Ponzi financing (Özlale & Yeldan, 2004).

Hence, there were massive short-term flows to the domestic economy in the post-1989 period. An abundance of foreign currency resulting from increased capital flows led to appreciation of the domestic currency, and an overvalued exchange rate stimulated imports. As a result, the current account deficit reached 3.6% in 1993. Facing difficulties in sustaining the short-term capital flows, Turkey experienced a severe financial crisis in 1994, resulting in a drastic devaluation and a rise in real interest rates. It also had a severe impact on the banks because they were exposed to maturity mismatches and foreign exchange risk due to their huge open positions in foreign currencies. Three private banks were declared insolvent (TYT Bank, Imexbank, and Marmarabank). A crisis of confidence emerged in the banking sector in the aftermath of the 1994 crisis. The Turkish government reacted against this confidence crisis by insuring all saving deposits. Shortly after the crisis, closed foreign exchange positions reopened and banks started to once again borrow from abroad. Because the practice of borrowing cheaply from foreign markets and investing in GDIs remained highly profitable for the banks, there was not a major structural change in banking activities in the second half of the 1990s. Financing the public sector deficit remained the dominant activity of the banks throughout the period.

The ratio of loans to total bank assets fluctuated around 40% during the 1990s (BAT, 2010b), indicating the low level of financial intermediation in Turkey and that the liberalisation of the financial markets did not lead to a significant change. This is evident in the unchanged financing behaviour of corporations. Trade credits, obtained from subsidiaries or relatives, were instrumental to the credit market before liberalisation, and they kept their importance afterwards. According to company sector accounts released by the Central Bank, the percentage of trade credits in the composition of corporate sector liabilities fluctuated around 20% in the 1990s which was almost equal to the share of bank credits. The share of bank loans in total corporate sector liabilities remains at the same level, which is quite low when compared to typical bank-based economies, such as in Germany where the ratio is above 50% (Aydin et al., 2006). Such differences among countries reflect the importance of the institutional, social, and historical factors in each country's financial system, as discussed in the theoretical framework in Chapter 2.

The pivotal role that the state played in shaping the post-liberalisation period also needs to be considered in this context. One state intervention was the regulation that banks were required to keep government securities in their portfolio—yet they could be converted into cash at any time. The percentage banks were required to invest in treasury securities for purposes of liquidity increased from 10% in 1983 to 35% in 1991 (Binay & Kunter, 1998). This regulation could be interpreted as a direct state intervention in the banking sector (Ertürk, 2003), as it was used to finance the public deficit.[68] This form of state intervention was also instrumental in the capital accumulation process that took place via the banking sector; this is related to the ownership structure of the banking sector in Turkey.

As already mentioned, a large public deficit and high yields for public securities paved the way for banks' heavy engagement in public deficit financing. The possibility of making high profits from financing the public deficit encouraged family-owned large corporations in Turkey to acquire ownership of banks. Further, bank ownership would guarantee the family business access to cheap credit. New entrants into the capitalist class, the so-called Anatolian tigers, had experienced difficulty in obtaining credit. Establishing their own banks or buying privatised state banks, such as Turkbank, Etibank, and Sumerbank, allowed them to solve their financing problems (Aybar & Lapavitsas, 2001b). Because of this, the 1980s and 1990s were marked by a proliferation of holding banks in Turkey.[69] Holding banks are large industrial conglomerates that control a part of the banking sector through their ownership of holding companies. In 1996, 29 out of 31 commercial banks in Turkey were holding banks (Gültekin-Karakas, 2009, p. 124). These institutions were encouraged by the state with the intention of increasing private investment. However, acquiring a new banking licence became a highly political issue. Large conglomerates were granted licences as a result of their political influence on the state; thus, they began to control the financial resources (Gültekin-Karakas, 2009, p. 82). High returns on government securities and the growing public sector deficit paved the way for a transfer of income from the state to these holding groups. In this sense, public deficit financing via the banking sector served as a mechanism of income transfer in Turkey. There was a remarkable transfer to conglomerates as they borrowed money from international markets and invested it in high-

[68] For a detailed analysis of how state intervention in terms of public debt management intensified financial domination in Turkey, see Güngen (2008).

[69] It was in the 1960s that the newly emerging large conglomerates began to buy private banks in Turkey. For these conglomerates, moving into the financial sector was a way to gain access to cheap credit. The Bank Law (Act No. 7129) passed in 1957 and it paved the way for the emergence of holding banks by removing the credit ceilings on lending to enterprises in which banks were themselves equity owners (Öncü & Gökçe, 1991).

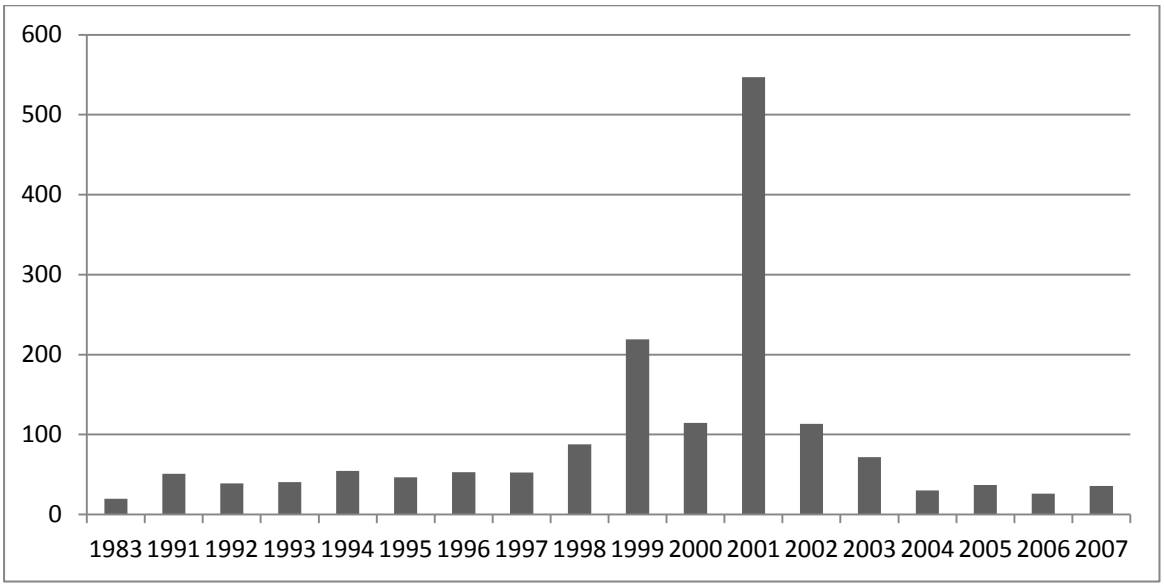
yielding government instruments. These conglomerates profited from both the interest rate and exchange rate differentials between Turkey and the international markets.

The extent of income transfer to holding banks through their financing of the public deficit can be better understood by considering the rising share of interest income earned from holding government securities. Banks were earning almost all of its interest income from loans prior to 1985, but then interest income from securities became an importance revenue source. The share of interest income from securities in the operating income started to rise in the beginning of the 1990s (BAT, 2008); between 1986 and 1990, the ratio on average was 19%, and reached 49% for the period 2002–2007. The underlying economic rationale behind this is understandable because the return on securities was much higher than the return on loans in this period.[70] From 1986 until the mid-2000s, the yields on securities were always higher than yields on loans (BAT, 2008).[71] This trend changed in the mid-2000s, as will be shown in Chapter 5, in which the developments in the government bond market in the post-2001 period is evaluated.

The attraction to high yield public securities between the mid-1980s and early 2000s also led to an increasing interest by industrial firms to invest in government bonds. While the ratio of average non-operating income to total profits of the top 500 manufacturing firms in Turkey was around 30% during the 1980s, it rose sharply in the following years, reaching 219% in 1999 and peaking at 547% in 2001 (Istanbul Chamber of Industry, 2008). Related to macroeconomic developments, non-operating income to total profits of the top 500 manufacturing firms fell significantly in the post-2001 crisis era, as can be seen in Figure 4.1. The ratio fell to its lowest level of 26.3% in 2006 (although rising to 35.6% in 2007).

[70] Figure 5.7 gives a comparison of the return on loans and the return on securities between 1985 and 2009.
[71] For an analysis of the extent of the income transfer through fiscal debt management see (Cizre-Sakallıoğlı and Yeldan, 2000). They offer a comparison of interest costs of the state on domestic debt and corporate tax earnings.

Figure 4.1: Non-operating Income/Net Profit in the Top 500 Firms in Turkey



Source: Istanbul Chamber of Industry (2008)

Note: Non-operating income refers to the total of interest income, profits from participation, utilised proportion of allowances, and other income and profits. A major part of it includes earnings from public bonds and treasury bills.

It is often argued that this situation led to crowding out private investment. An example in Boratav et al. (2001) illustrates a typical case of reduction in production volume due to the shift of resources from manufacturing to high-yielding public securities by industrial firms:

> Turkish car manufacturers suspended production and temporarily dismissed workers for a few months during the crisis period in mid-1994 and invested their working capital, i.e. wage funds on treasury bonds offering exorbitant interest rates. Their end-year balance sheets registered substantial losses on their productive activities, but even higher profits on their "auxiliary" (i.e. financial) activities. (p. 335)

Having said that when evaluating the arguments related to the crowding-out criticism, a caution should made. Empirically, it is difficult to prove whether high-earning opportunities from GDIs led to crowding out of investment. Companies' shifting of resources to public bonds may be interpreted as strategic decisions made under volatile growth and high-interest rate conditions when trying to compensate for the potential losses from investing in real investment under such conditions.

In a nutshell, staring in the late 1980s, financing the public deficit became a highly profitable activity for the banking sector. It laid the foundation for the financialisation of the Turkish economy. This situation is similar to the experiences of many other developing countries as discussed in Chapter 3. Accordingly, public deficit management has played a crucial role in the financialisation of developing countries in general. Capital account liberalisation also intensified the financialisation process. Open capital accounts and high interest rates on GDIs induced domestic agents to hold GDIs, and banks have been key players of the process. The ownership structure of the banking sector in Turkey led to a huge income transfer to conglomerates as they owned banks. This pattern of public deficit management created serious fragilities in the banking sector and in the economy as a whole, as became evident in the 2001 crisis.

4.3 The Road to the 2001 Crisis

In 1999, it became obvious that an urgent policy response was needed to the pressures of the economy, namely, chronic inflation, high interest rates, and overwhelming public deficit. To tackle these problems the government launched an IMF-led disinflation program in December 1999. The main pillars of the program were tightening fiscal policy, implementing structural reforms, and reducing inflation by stabilising the exchange rate.[72]

Initially, the program seemed to be successful in achieving its targets for the nominal exchange rate, net domestic assets, and primary budget deficits (Akyüz & Boratav, 2003). Nevertheless, due to price stickiness in the Turkish economy, inflation kept growing, leading to currency appreciation in real terms (Akyüz & Boratav, 2003), which in turn created expectations of a devaluation. As a result, in 2000, a sudden capital outflow occurred, leading to a severe foreign exchange shortage in the economy. This initial capital reversal was halted with an immediate IMF grant, hence, it did not result in a major crisis in Turkey. Having halted the capital outflow and having stabilised the financial market, the threat was assumed to be over. However, the stability proved to be short-lived: the public deficit continued to grow, inflation increased, and currency appreciation continued (Akyüz & Boratav, 2003). State authorities' insistence on managing the exchange rate only exacerbated the situation. In February 2001, the Turkish economy experienced a severe crisis. Faced with a huge capital

[72] For details of the 1999 stabilisation program, see Akyüz and Boratav (2003).

outflow, the government let the exchange rate float. This marked the end of 1999 disinflation program.

The major shortcoming of the 1999 disinflation program was that the targets for reducing inflation and the public deficit were made priorities ahead of dealing with the major problems in the Turkish financial system. Indeed, the program was incapable of bringing down inflation due to existing fragilities in the sector (Ertuğrul & Yeldan, 2003). As explained in the previous section, in the 1990s, banking sector activities were predominated by lending to the government, and high interest rates on GDIs were crucial for banking sector profits. However, there was a sharp decline in the real interest rates in 2000. While the average annual real interest rate on domestic borrowing was 32% between 1992 and 1999, with implementation of the disinflation program, the ratio receded to 2.1% in 2000.[73] The rapid decline in interest rates deprived banks of their major source of income and exposed them to financial risks, considering their high level of external debt burden (Akyüz & Boratav, 2003).

The crisis that erupted in 2001 had devastating outcomes for the economy.[74] The GNP contracted by 9.5% in one year's time. The rate of unemployment, which was 6.5% in 2000, rose to 10.3% in 2002. In the aftermath of the February 2001 crisis, it became obvious that major reforms in the banking sector were crucial to solving the problems inherent in the economy. On that basis, a major reformation in the banking sector was undertaken. In addition to the reform initiative, there were profound changes in monetary and fiscal policies which had important implications on banking sector activities. Chapter 5 will give a detailed analysis of post-2001financial and real sector developments of the Turkish economy and attention will be paid to several transformations that the economy has undergone in the post-2001 period. This will enable us to establish the connection between the rise in household indebtedness and the changed dynamics of the capital accumulation process of the Turkish economy in the age of financialisation. First, however, section 4.4 discusses the developments in the banking sector, focusing on the characteristics of the consumer lending.

[73] Data is from the Undersecretariat of Treasury, Monthly Economic Indicators, see <http://www.treasury.gov.tr>.

[74] A vast literature flourished in the post-crisis era, with analyses of the causes and consequences of the crisis in relation to the banking sector (see, for instance, Akyüz & Boratav, 2003; Cizre-Sakallıoğlu & Yeldan, 2005).

4.4 Dynamics of the Turkish Banking Sector After the 2001 Crisis

Since the crisis, the banking sector has grown at a rapid pace and experienced a significant rise in financial depth, financial intermediation, and structural indicators. To start with, Table 4.1 shows the remarkable increase in the financial depth and intermediation indicators in the post-crisis period.

Table 4.1: Financial Depth and Intermediation Ratios (%)

	Assets / GDP	Loans / GDP	Deposits / GDP	Loans / Assets	Loans / Deposits
2001	69.3	17.1	48.8	21.9	31.8
2002	60.7	16.1	40.6	26.5	39.6
2003	54.9	15.4	35.4	28.0	43.5
2004	54.8	18.5	35.3	33.7	52.3
2005	61.2	23.6	39.1	38.6	60.4
2006	63.9	28.8	41.2	45.0	69.7
2007	65.7	32.9	41.8	50.0	78.6
2008	74.3	38.6	47.7	52.0	80.9
2009	83.7	39.9	53.2	47.7	75.1
2010	87.1	46.1	55.7	52.9	82.8

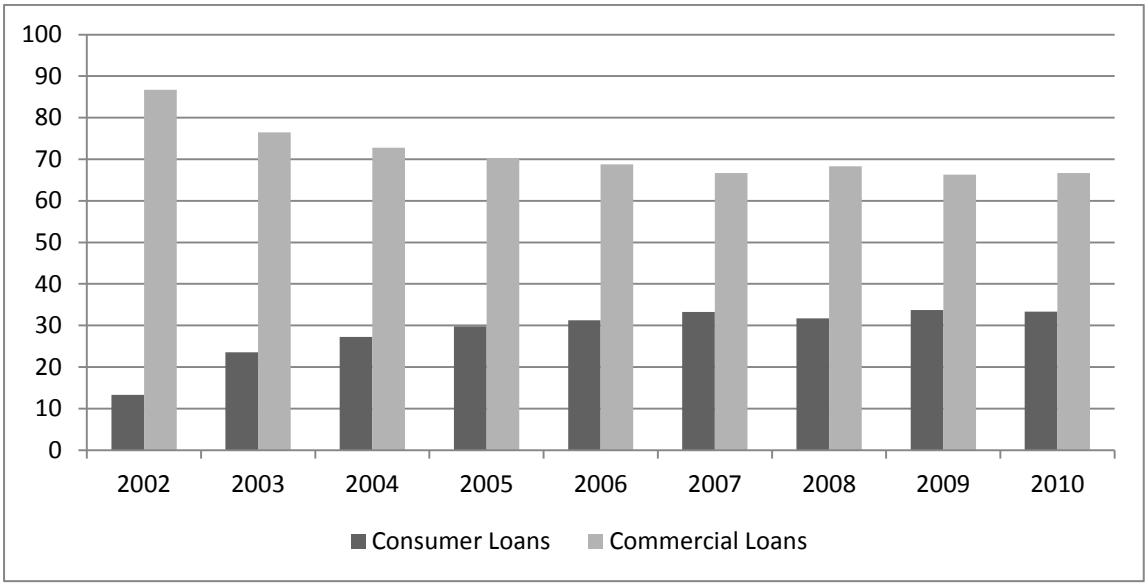
Source: BAT

The contraction in the financial sector was dramatic during the crisis. However, from 2004 onwards, financial assets, loans, and deposits relative to the GDP expanded rapidly, as can be seen in Table 4.1. Along with this financial expansion, financial intermediation deepened as well. While the ratio of loans to assets increased from 34% to 53% between 2004 and 2010, the ratio of loans to deposits rose from 52% to 83% over the same period.

Many interpreted these developments as the banks' return to the traditional role of financial intermediation, not financing public deficit (see Başçı et al., 2007). This interpretation originated from the old assumption that when banks were engaged in intermediation, their borrowers would be mainly corporations (Ertürk & Solari, 2007). Although there might be some truth to this assumption, what observed in Turkish banking is that bank loans increasingly were made to households. Strikingly, the growth in consumer loans has been higher than the growth in corporate loans in the post crisis period, and the

share of consumer loans to total loans increased from 13% in 2002 to 33% in 2010, as shown in Figure 4.2.

Figure 4.2: Distribution of Loans by Type in Turkey (%)

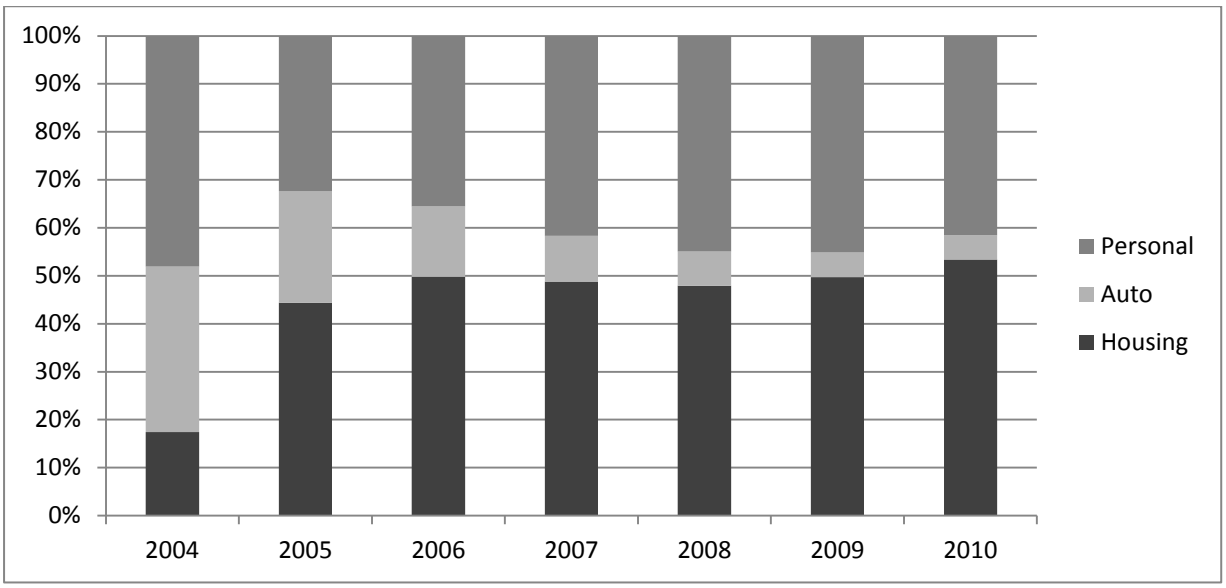


Source: BAT

Another major development in the banking sector activities post-2001 has been the rise in fee- and commission-generating activities. As a result, the ratio of income from net fees and commissions to operating income increased from approximately 11% in 2002 to 19% in 2008 (BAT, 2010b). The extension of financial services to households has played a major role in this process, as banks have started to charge for several services which they previously offered for free. According to the research conducted by the Ankara Chamber of Commerce (ACC) in 2008, banks were collecting 93 different types of service fees and commission fees from their customers (ACC, 2008). These include credit card charges, late payment fees, transfer fees, and so on. As a result, net income from fees and commissions in the Turkish banking sector increased more than six-fold, from $965 million to more than $6.4 trillion between 2001 and 2010 (BAT, 2010b). While acknowledging the importance of increased fees and commissions for the banking sector, one should still consider the relatively low ratio of fees and commissions to total operating income. Still, the major source of income for the Turkish banks is from interest earnings. In fact, the greatest change in Turkey's banking sector activities resulted from diversifying its composition of borrowers, not increasing fees and commissions.

As presented in Chapter 1, consumer loans (personal, house and auto loans and credit cards) emerged as key growth areas of credit in the post-2001 period. Analysing the composition of consumer loans, it becomes clear that these loans are mainly personal and housing loans (see Figure 4.3). Personal loans are generally borrowed for the purchase of durable and semi-durable consumer goods and to pay for healthcare, education, and marriage. The financial stability report of the CBRT (2008a) stated that these personal loans are also used to pay credit card debt, indicating that defaults on credit card payments can be a possible contributing factor to the rising volume of personal loans.

Figure 4.3: Composition of Consumer Loans in Turkey



Source: BRSA

Note: Data on personal loans is not available separately before 2004.

The sharp rise the share of housing loans to total loans in 2005 is striking. The main reason for this was the rapid decline in the monthly interest rates on housing loans, dropping from 2.57% in mid-2004 to 0.99% by the end of 2005 (BRSA, 2006). Another factor was the extension of maturities for housing loans. It is important to insert a caveat here. In spite of their rapid rise, housing loans are still limited in Turkey in comparison to many developed and developing countries. A key point here to consider is the element of trust in credit relations. As housing requires long-term financing, the credit bears longer-term risk in comparison to other forms of consumer loans. Hence, establishing a developed, private housing mortgage market relies on trust conditioned by the institutional structure, legal arrangements, macroeconomic climate, and so on. A reliable environment will lead to

positive expectations against uncertainties in credit relations. In the case of Turkey, a lack of a financial infrastructure is one of the most important reasons for mistrust in the mortgage market. Another point to consider is the practice of constructing unauthorized dwellings in squatter settlements; these dwellings meet a large proportion of the demand for housing. In addition, the widespread use of family resources, such as savings and inheritances, also needs to be considered when attempting to understand the housing system in Turkey (Akin, 2008). An overall assessment of the reasons behind the shallow mortgage market in Turkey must account for all these factors, but such an analysis is beyond the scope of this paper. Section 4.5 focuses on other aspects of financialisation of household income in Turkey and elaborates on the implications of the use of credit cards and consumer loans extended in recent years.

4.5 Financialisation of the Household Sector in Turkey and its Implications

In analysing the financialisation of household income and in assessing the burden of consumer debt, one should consider what happens to both assets and liabilities. If borrowing debt is used for investing in real and financial assets, the loss from interest payments can be compensated by income earned from assets such as stocks, bonds, rental properties, and other financial instruments. However, as presented in Chapter 3, as opposed to developed countries, financialisation of household assets has not a major phenomenon in developing countries so far. An analysis of the balance sheets of the household sector in Turkey verifies this observation (see Figure 4.3).

Table 4.2: Composition of Household Financial Assets in Turkey (%)

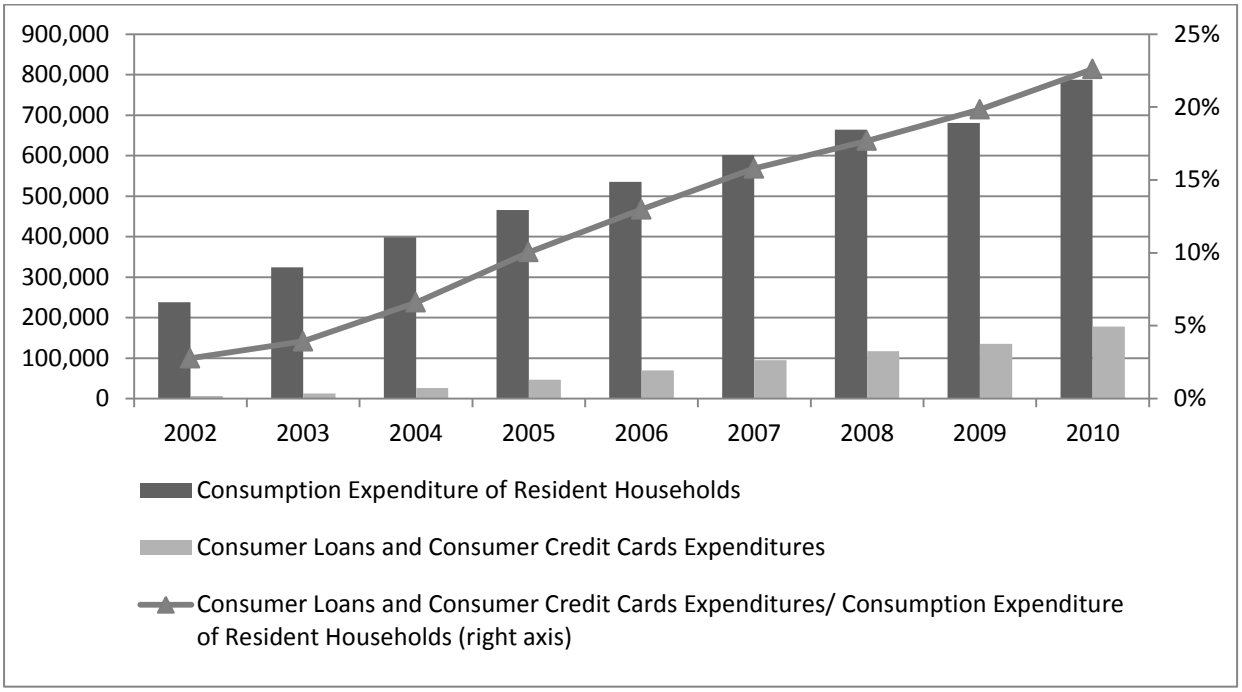
	2003	2004	2005	2006	2007	2008	2009	2010
TL Deposits	29.1	33.3	41.2	40.6	45.5	51.2	49.9	52.7
FX Deposits	35.2	32.2	27.2	26.8	25.0	24.2	23.3	20.1
Currency in Circulation	6.4	6.5	8.3	8.8	8.4	8.3	8.4	9.3
Government Securities and Eurobond	22.4	20.5	15.7	10.1	6.3	5.3	3.3	2.0
Mutual Funds	n.a	n.a	n.a	6.3	7.2	5.6	6.2	5.9
Stocks	5.1	6.5	7.1	5.6	5.6	2.9	5.9	6.8
Private Pension Funds	0	0.2	0.5	1.0	1.5	1.7	2.1	2.5
Repos	1.78	0.8	0.7	0.7	0.6	0.6	0.5	0.3
Precious Metal Deposits	n.a	n.a	n.a	n.a	0.0	0.1	0.3	0.5
Total Assets (Billion TL)	157.6	190.5	219.5	279.7	313.6	368.3	420.4	481.7
Household Leverage Ratio (%)	8.5	14.8	22.2	26.3	33.2	35.0	35.1	39.7

Source: CBRT (2006b, 2008a, 2010, 2011b)

Table 4.3 shows that households hold their assets mostly in deposits. It is striking to see that while the importance of deposits has declined in many countries in the age of financialisation, this has been the reverse in Turkey. The total share of TL and FX deposits increased from 64.3% in 2003 to 72.8% in 2010. Another important observation is that, together with the introduction of the private pension system in 2003, there has been a steady, albeit small, increase in the share of private pension funds in the household portfolio. On the other hand, there has been a decline in the share of government securities and Eurobonds, due to their declining yields.

On that basis, it can be concluded that the expansion of household credit does not reflect higher financial wealth in Turkey, as evident in the remarkable increase in the household leverage between 2003 and 2010. The ratio of financial liabilities to assets in Turkey rose from 8.5% to 40% between 2003 and 2010 (see Table 4.3), indicating that the financialisation of household income in Turkey has mainly taken place through borrowing. As can be seen from Figure 4.4, the share of consumption of resident households financed by consumer loans and credit cards increased from 2.7% in 2002 to 22.6% in 2010, indicating the increasing penetration of credit into the daily lives of people.

Figure 4.4: Ratio of Consumer Loans and Consumer Credit Cards to Consumption of Resident Households in Turkey (Billion TL, %)

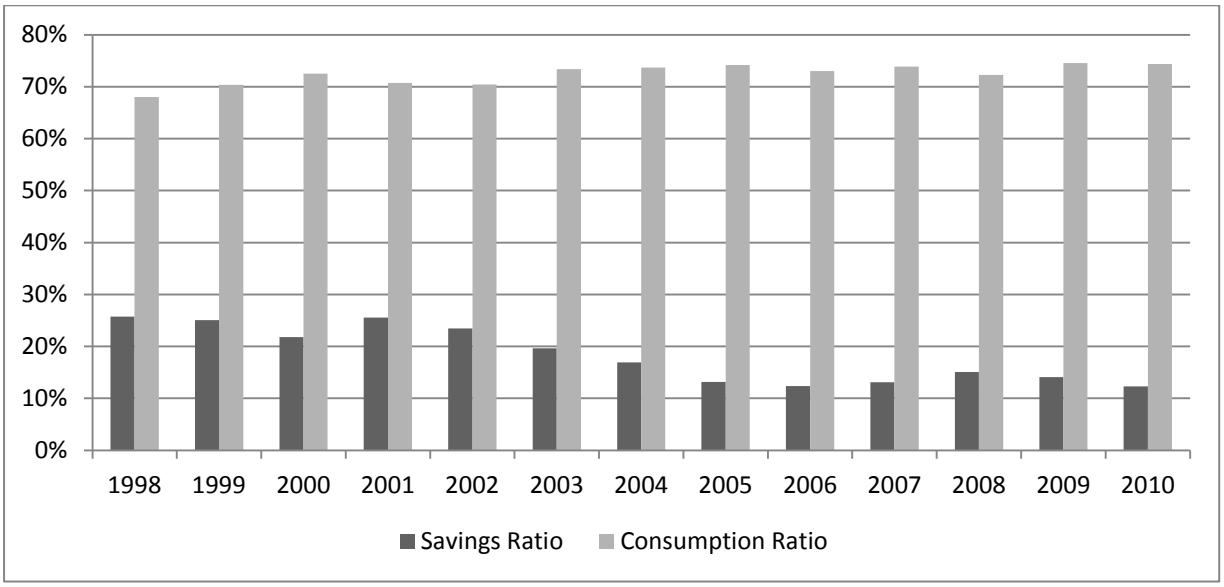


Source: BRSA and TURKSTAT
Note: Data on consumer loans and consumer credit cards include non-performing consumer loans and nonperforming consumer credit cards.

During the same 8-year period, the private consumption rate increased on average (see Figure 4.5). Indeed, private consumption has been an important source of growth, contributing 5.1% to Turkey's GDP growth between 2002 and 2007.[75] It needs to be noted, however, this has been accompanied by a remarkable decline in private savings, which has reached its lowest level since 1998 (Figure 4.5).[76] The data breakdown of private savings by corporate and household sectors is not available. Nevertheless, as Van Rijckeghem and Üçer (2009) stated, based on the household budget survey data released by the State Institute of Statistics, household savings can be assumed to follow a similar pattern to that of private savings. Indeed, diminishing household savings largely contributed to the decline in private sector savings. According Van Rijckeghem (2010) household savings fell from an estimated 17% in 2004 to 8% in 2008.[77]

[75] According to the national accounts data, released by TURKSTAT, see <http://www.turkstat.gov.tr>.
[76] One of the major concerns regarding the low level of savings is that it imposes a constraint on accumulation of wealth and future increases in standards of living. Another major concern is related to the widening current account deficit. Low savings relative to investment, in the face of continuing investment and consumption patterns, leads to deepening of the current account deficit (see Chapter 5 for details).
[77] TURKSTAT does not provide data on household savings. Studies on household savings that use TURKSTAT data, however, estimate saving figures by using data on household consumption expenditure and household disposable income. However, estimates based on these data might lead to inconsistent results because

Figure 4.5: Private Sector Consumption Saving Ratios As % of GDP



Source: SPO

Largely contributing to the marked decline in the savings of households during this period was increased household borrowing and the rise in the household debt burden. Along with an increase in the ratio of consumer credit to private consumption, there has been a rapid increase in the burden of debt service, as discussed in Chapter 1, indicating a rise in income transfer from households to the financial sector in the 2000s. This study now turns to examine how the high interest rates on credit cards is an important factor in the rise in consumer debt burden.

Turkey is among the fastest growing credit card markets in Europe. Although the introduction of the first credit cards started in 1968 with Diner Clubs cards, it was only after the 2001 crisis that the use of credit cards flourished in Turkey. According to the statistics from the Interbank Card Centre, from 2003 to 2009, the number of credit cards in use grew from 20 million to 47 million. Driven essentially by the structural transformation in the real and financial sector (as will be discussed in Chapter 5), banks' aggressive marketing and advertising strategies have also fostered the fast growth of credit cards. They were marketed everywhere, including in the streets, at shopping malls, etc. To encourage credit card usage, banks offered various rewards to customers such as loyalty points, flier miles, and instalment

TURKSTAT collects household disposable income figures for the 12-months period prior to the survey month (participants are interviewed at different months during the year and they report on income during the previous 12 months) but it collects data for household expenditures for the last month. Therefore, estimating the savings based on raw data does not give an accurate measure of savings as it combines current information for consumption and prior year information for income. Van Ricjkeghem (2010) explained that for her methodology, she obtained saving rates by making some adjustments in the raw data.

payment plans. These strategies worked to increase usage of credit cards, as the customers tended to spend more to be able to benefit more from these rewards, making credit cards an important source of profit for banks. Aydın and colleagues (2009) stated that credit cards generated more than 10% of the total banking sector profits in 2008, in spite of the fact that credit cards have gained prominence in Turkey only since the 2000s.

As with the banking sector (see section 5.3.1), there is a high concentration of banks in the credit card market in Turkey. Six of the largest banks (Yapi Kredi Bank, Garanti Bank, Akbank, Isbank, Finansbank, and HSBC) together account for nearly 85% of the credit card market (Aydın et al., 2009). The importance of this for our purpose is the potential for banks to increase and strengthen their power over their customers by determining the transaction rules according to their own interests. Very high credit card interest rates, even in the face of a decline in the cost of funding, are evidence of this.[78]

The excessive credit card interest rate is a burning issue in Turkey. Prior to 2006, interest rates on credit cards were at unprecedented levels. Table 4.4 shows average yearly interest rates applied to credit cards and consumer credits in Turkey in comparison to other countries for 2006. The difference between credit card and consumer credit interest rates was remarkably high in Turkey.

Table 4.3: Comparison of Interest Rates by Country for 2006

Country	Real Consumer Credit Interest Rate (%) (1)	Real Credit Card Interest Rate (%) (2)	2/1
Turkey	22.6	**84.8**	**3.75**
United States	7.5	12.5	1.66
United Kingdom	14.2	16.5	1.16
Australia	12.0	16.8	1.40
New Zealand	13.7	18.8	1.37

Source: CBRT (2006a)

[78] Akin et al. (2008) estimated the sensitivity of credit cards interest rates to the cost of funds (determined by the overnight interest rates) in Turkey between 2001 and 2006. They concluded that credit card interest rates are insensitive to downward trends in the cost of funds.

In response to the rising public discontent against high interest rates on credit cards, the Bank Cards and Credit Cards Law was introduced in 2006. With the new regulation, the Central Bank determines the maximum contractual and default interest rates to be applied to credit card transactions. Banks are not allowed to exceed these rates which are announced by the Central Bank every three months. From 2006 onward, the Central Bank gradually decreased the maximum actual and default interest rates for credit card transactions.[79] The bankers, of course, are against any laws regarding the interest rates, arguing that this decreases the efficiency of free markets. However, banks' exorbitant credit card interest rates cannot be defended on this argument, with the most important reason being the lack of competition in the credit card sector, as evidenced by their monopoly in this area. Indeed, the banks' reaction against such regulations is understandable, given their considerable profits from defaulted debts (Aysan & Yıldız, 2007).

Unsurprisingly, high interest rates led to an increasing number of defaults on credit card debt. In response to increasing defaults, the government granted amnesty to debtors several times starting in 2003. The 2003 amnesty allowed borrowers to consolidate unpaid debt for up to 12 months with a maximum 50% interest rate to be applied on the capital (Aysan & Yıldız, 2007). However, as many debtors did not have the means even to pay the instalments, the benefits of the amnesty fell short of expectations.[80] The 2003 amnesty was followed by another in 2005. Once again the amnesty proved to be only a partial and temporary solution to the problem, as the number of defaults on credit cards payments kept rising.

The most comprehensive law relating to credit cards is the aforementioned 2006 Bank Cards and Credit Card Law. As mentioned earlier, one of the most important terms of this law was the appointment of the Central Bank as the sole authority in determining the interest rates on credit cards. The law imposed several other obligations on banks, such as setting the principles and procedures applicable to the issuance, use, clearing, and settlement of bank cards and credit cards. Banks have become subject to the following conditions. According to the Bank Cards and Credits Cards Law:[81]

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[79] Although the rates have declined significantly, the Central Bank still sets the maximum credit card interest rates well above its year-end inflation targets. The annual compounded interest rate on credit card reached 30% in 2011 while the annual inflation target was 5.5% for the same year.

[80] Aysan and Yıldız (2007) stated that while it was expected that between 500.000 and 1 million people would benefit from the amnesty program, only 150.000 people applied to benefit from this arrangement.

[81] The Banks Association of Turkey, Bank Cards and Credits Cards Law, 2006, <http://www.tbb.org.tr/english/Credit_Cards_Law.doc>

> Card issuing organizations may in no case and for no reason issue a card to the name of a person who does not file a request or sign a credit card agreement.
>
> In the case of failure in payment of the minimum amount within three months following the last payment date, and failure in payment of the said amount within one month after receipt of a notice by the card holder from the card issuing organization… the relevant card issuing organization will cancel all credit cards given to that card holder, and may not issue and give new credit cards until full repayment and settlement of the outstanding debts.
>
> Card issuing organizations may not increase card limits unless otherwise demanded by the cardholder.
>
> The total limit of credit cards that may be granted by a card issuing organization to all credit cards of a natural person may not be in excess of twice of his average monthly net income for the first year, and in excess of four times thereof for the second year.

The latest regulation related was passed in 2009 and aimed to bring financial relief to debtors.

Credit cards still remain the highest yielding instrument of banks in Turkey. One of the most important advantages of credit cards for the banks is that they can be offered to customers with greater risk. Because banks earn high margins on revolving balances, they can absorb the high risk of the mass market. This is evident in the expansion of credit cards targeted to low-income segments of society. Although credit card usage is a means of "buy now and pay later", credit cards are increasingly used as substitutes for consumer loans, especially by people without access to such loans. Using credit cards in this way, of course, often ends with large outstanding balances owed. These credit card users then become subject to higher default payments, which means greater profits for the banks, even though there is a limit to how much banks can bear in defaulted debts.

The problem has come to the fore in recent years with the sharp increase in the number of people who could not pay back their consumer loan and credit card debt. According to statistics from the Central Bank, the number of those defaulting increased from 25,572 in 2006 to 503,553 in 2010, indicating approximately a 20-fold increase. Accordingly, there was a sharp increase in the ratio of nonperforming loans (NPLs) to total loans in the aftermath of the 2008 global crisis. Table 4.5 shows the development of the NPL ratio for

total loans, consumer loans, and credit cards in Turkey between 2002 and 2010. Although the NPL ratio was on the improving trend post-2001, with the downturn in the global markets, it increased again in 2009. What needs to be considered here is that while the ratio of NPLs from commercial loans was generally higher than for consumer loans, the trend had changed as the new NPLs originate from consumer loans.

Table 4.4: Nonperforming Loan Ratios by Subsegment

	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Loans	21.2	11.5	6.0	4.7	3.7	3.5	3.7	5.3	3.7
Consumer Loans	2.9	1.7	0.8	0.7	0.9	1.5	2.6	4.5	2.9
Credit Cards	5.1	3.8	4.6	7.8	8.0	6.8	7.0	11.6	8.7

Source: BRSA

Although the banking sector remained stable in the face of a contraction in the real economy in the aftermath of the 2008 global crisis (attributed to the reforms undertaken in 2001 and high capital adequacy ratio), the rise in NPLs in the consumer credit market emerged as a particular weakness. Declining trends in real wages and increasing unemployment increased the problems the banking sector faced in collecting payments from the households.

The Central Bank and other regulatory bodies paid special attention to this weakness and increased awareness about risks on the rapid expansion of consumer credit by issuing warnings in press releases. For instance, in 2008, the Central Bank warned that "as banks will apply stricter terms when providing consumer loans, tendency of consumers to meet their credit needs with credit cards, which charge higher interest rate compared to consumer loans, will possibly lead to an increase in the number of defaulters" (CBRT, 2008d, p. 49). This proved to be an accurate prediction. As the head of the BRSA, Tevfik Bilgin, confirmed that the rate of NPLs increased from 3.3% at the end October 2008 to 4.4% at the beginning of February 2009, when the global crisis hit the Turkish economy ("Growing Non-performing", 2009). The sharp rise in 2009 NPLs seems to be declining. Nevertheless, the sharp decline in household savings with increasing household indebtedness still pose threats to the economy

and has recently started to receive increasing attention by the Turkish government. In December 2011, Deputy Prime Minister Ali Babacan warned that savings are at alarming levels.

> Saving rates fell to 12% of the national income this year, reaching a record low level. Unfortunately, 45% of the households in Turkey spend more than their income and loans to banks are increasing. Last year, consumer credit increased by 43 billion lira. This year increased by another 50 billion lira. We need to pay attention to this. People should accommodate themselves according to circumstances. ("Babacan Tassarruf", 2011)

In a world of increasing expectations towards a slowdown in growth rates across many developed countries, many with which Turkey has trade relations, it is highly likely households in Turkey will encounter severe problems in repaying their debt. The situation might result in similar household debt crises that have hit many Western countries in recent years.

4.6 Conclusion

Beginning in the 1980s, the role of finance in Turkey's economic and social life increased, along with financial liberalisation and deregulation measures. One of the major changes in the financial system occurred with the shift in financing of the public deficit from the Central Bank to commercial banks the late 1980s and this has played an important role in the financialisation of the Turkish economy. From that period onward, interest income from securities has become an important source of revenue for banks, especially after the liberalisation of capital flows in 1989. By investing international loans into high-yielding GDIs, banks profited both from the exchange and interest rate differentials between Turkey and international markets. This led to a huge income transfer to conglomerates because these businesses owned the majority of banks in Turkey. Furthermore, after the liberalisation of capital flows in 1989, Turkey was increasingly exposed to the volatility of capital flows like many other developing countries. Sudden capital outflows led to severe financial crises. This study especially focused on the 2001 crisis, after which the banking sector underwent major

transformations. For the purpose of this study, the most important consequence of these transformations was the banks' increased orientation towards consumer banking activities.

A rapid increase in consumer credit and household debt has marked the post-2001 crisis in Turkey. One of the aims of this dissertation is to analyse the causes and consequences of this rise in consumer debt. As discussed in Chapter 3, such a task requires analysing both the reasons for consumers' increased demands for credit and the banking sectors' reasons for increasing the supply of consumer credit. To do this, Chapter 5 gives a macro picture of the developments in the Turkish economy in the post-2001 crisis era that offers an understanding of the demand- and supply-side reasons behind the credit phenomenon. In Chapters 7 and 8, an overall analysis is supported by incorporating insights from the fieldwork on workers' indebtedness. This analysis provides information for which there is not yet national data.

Chapter 5: Post-2001 Crisis Determinants in the Rise of Consumer Credit and Household Debt

5.1 Introduction

Chapter 4 discussed an analysis of the developments in the credit markets in the post-2001 crisis, focusing on the banks' orientation towards consumer lending. This chapter examines the reasons behind this orientation by drawing on the financialisation literature and by considering the specific characteristics of Turkey as a developing country. It discusses many transformations the Turkish economy underwent in the 2000s, including key issues such as export growth, changes in production structure, developments in the labour market, monetary framework, and capital flows. Discussing these topics in detail is important for our purpose because it clearly highlights the reasons behind the rise in household debt in Turkey as related to both demand- and supply-side dynamics.

The chapter starts with an analysis of the developments in the Turkish economy in relation to the demand-side factors behind the rise in household debt. It focuses on three key areas: productivity and wages, labour market regulations, and welfare policies. Each is analysed in relation to the broader structural dynamics of the economy.

As discussed in presenting the theoretical framework of this dissertation in Chapter 2, banking sector developments and the rise in household debt cannot be understood independent from the capital accumulation process of any country under consideration. For Turkey, the post-2001 crisis era has been characterised by its growing integration into the world economy. Turkey has significantly expanded its export capacity and attracted large capital inflows, especially in the forms of Foreign Direct Investment (FDI) and private sector borrowing from external sources, and the economy achieved remarkable growth in production, exports, and productivity. However, these developments have not occurred without problems. First, Turkey has become more dependent on international markets in terms of imports and capital flows. Given the revival of capital flows, the economy experienced an import boom driven by overvaluation of the Turkish Lira (TL), which led to a sharp increase in the current account deficit. Private sector borrowing and short-term money flows became the two main channels through which the deficit was financed. The situation made the economy very vulnerable to downturns in the global markets, as occurred in the 2008 crisis. Second, in post-2001, despite high rates of growth, the economy could not

generate sufficient employment, and unemployment remains a major issue. Furthermore, greater labour productivity growth in the post-2001 period has not materialised into gains in wages and higher standards of living. Keeping wages low has been an important factor in maintaining international competitiveness, in the deepening integration process of Turkey into the world economy. In the meantime, there have been steady changes in consumption patterns. Increasing imports of consumption goods provided households with a greater variety of goods to choose from. Proliferation of shopping malls, local branches of global brands, fast food chains, and increased advertising accelerated consumption. However, as the increase in expenditure on consumption has not been matched by a similar increase in wages, the situation led to a rise in the demand for borrowing. The share of household consumption financed by consumer loans and credit cards has steadily increased in the post-2001 era, as shown in Chapter 4.

Apart from keeping wages low, another key strategy in maintaining international competitiveness in the post-2001 crisis era has been the deregulation of labour markets, as has been pursued through several legislative changes. The 2003 New Labour Law was pivotal in ensuring flexibility of working conditions and introducing nonstandard and precarious types of employment such as temporary work, part-time work, on-call work, and the 2008 crisis added to the deterioration of labour market conditions. The fieldwork undertaken in the aftermath of the 2008 crisis provides ample evidence, which is presented in Chapters 7 and 8. The labour markets developments are important to the argument of this dissertation for two reasons. First, massive and rapid increase in nonregular types of employment has increased the vulnerability of wage earners to accrue debt. Second, the new work arrangements and high unemployment have created an environment in which there are less secure yet low paid work, and the burden of debt service forces workers to accept these work conditions. In this sense, indebtedness begins to function as a mechanism to discipline the labour force to accept work that might not previously be accepted.

The final point that this chapter discusses, in relation to the rising demand for consumer credit, is the change in welfare policies. As discussed in Chapter 3, the financialisation of personal income in Turkey has more often occurred through borrowing rather than through asset acquisition, as in other developing countries. In contrast to developed countries, Turkey's deregulation and privatisation of pension and insurance funds have not become popular vehicles of for household. As the state increasingly retreated from public provision across a range of services such as pensions, healthcare and education, borrowing needs of wage earners have increased.

Based on an analysis of the dynamics of the Turkish economy in the post-2001 era, this dissertation argues that the increasing demand for borrowing in Turkey needs to be considered in the context of rising unemployment, stagnation of wages, deregulation of labour markets, and welfare losses in the social security system. All these factors contributed to the rise in household debt in the post-2001 crisis period.

After accounting for the dynamics behind the increasing demand for consumer credit, this chapter analyses the supply-side dynamics of the phenomenon in four sections. Section 5.3.1 gives an overview of the banking sector reforms in the aftermath of the 2001 crisis in order to understand their effects on banking sector activities, and specifically highlights three points. The first is related to the increased concentration in the sector, which was the immediate outcome of restructuring the Turkish banking sector. For our purpose, the most important implication is that the concentration strengthened the banks and allowed lenders to determine the terms and conditions of transactions according to their own interests. The second impact of reforms was on the ownership structure of the banking sector. The regulations that aimed to limit interconnected lending habits (see Chapter 4 on the discussion of business-owned banks) created banks that behave as independent capitalist enterprises, maximising profit rather than channelling funds to other businesses inside the conglomerate. The third impact was that it allowed for an increasing foreign bank presence, as postcrisis reforms introduced regulations that adjust the institutional structure of Turkey's banking to meet EU standards, and thus encouraged foreign bank entry. This was an important determinant in the rise in consumer lending Turkey, which is analysed in a section 5.3.4.

Section 5.3.2 gives an analysis of the effects of inflation targeting and fiscal discipline on the banking sector activities. The argument is that as banks realised diminishing returns on government debt instruments because of new policy environment, they sought alternate ways of making a profit. This is one of the underlying reasons for their increasing interest in consumer lending. Section 5.3.3 focuses on the implications of increased capital inflows for the banking sector in the post-2001 crisis era and highlights two major factors that changed the way the banks do business. The first is the increase in borrowing by nonfinancial corporations from international sources. As foreign funding opportunities reduced corporations need to borrow from the domestic financial sector, banks turned to consumer lending as an alternate way of making a profit. The second is related to the increase in funding opportunities for the banking sector, which has contributed to the rapid growth of credit expansion in the post-2001 crisis era. Section 5.3.4 discusses how the increased presence of foreign banks in Turkey expanded the availability of consumer credit. High

profitability opportunities in the Turkish consumer credit market encouraged foreign banks to expand their consumer lending activities into Turkey, which contributed to the consumer credit boom in Turkey.

The remainder of the chapter is organized as follows. Section 2 explores the reasons behind the rise in household debt by drawing on demand-side dynamics. In this context, changes in the productive sector, labour markets, and welfare policies are analysed in relation to how they affected the demand for consumer credit. Section 3 focuses on the supply-side dynamics of the process, discussing key policies and developments which had impact on the banking sector activities: bank restructuring and banking reforms, changes in monetary and fiscal policies, and increased access to foreign funding and increased presence of foreign banks. Section 5.4 concludes the chapter.

5.2 Assessing the Rise in Household Indebtedness: Focusing on Demand-Side Dynamics

5.2.1 The Transformation of Production and Foreign Trade

The Turkish economy recorded high growth rates in its post-2001 crisis period (with the exception of 2008 and 2009, due to the global crisis). The average growth rate between 2002 and 2007 was 6.6% (see Table 5.1). The main characteristic of this period was Turkey's deepening integration into the world economy through a remarkable rise in foreign trade and capital flows.

As a part of this increasing post-2001 integration, several structural transformations took place in production and foreign trade. Both global factors and domestic imperatives played roles in the restructuring of the Turkish economy. International organisations such as the IMF, the World Bank, and the OECD pushed for reforming the "business climate" to promote investment and competitiveness in the developing world (Cammack, 2006). Further, the favourable liquidity conditions in the 2000s increased access to funding opportunities from abroad (see Chapter 3). On the domestic front, an "investment oriented strategy" was demanded by business coalitions (Oğuz, 2009). This was reflected in the eighth Five-Year Development Plan (2001–2005) which was endorsed by the Turkish Grand National Assembly in 2000. The Industrial Policy became one of the most important parts of the plan. Later on, the "Industrial Policy for Turkey (Towards EU Membership)" was prepared with contributions by relevant public and private institutions. The main objectives emphasized were "to increase competitiveness and productivity of the industry, and to promote and

maintain sustainable growth within an outward oriented structure, in the face of increased global competition" (SPO, 2003, p. 44).

The new strategy required a shift in the technological composition of production. In the past, Turkish capitalists could compete in production based on cheap labour and raw material abundance, but with the increased competition in the world markets, domestic capitalists needed to compete on higher value-added goods and services. In the "Industrial Policy for Turkey" document, it is stated that, "policies ensuring a transition of the industrial structure from consumer goods, raw material and labour intensive goods to information and technology intensive goods and increasing market share by creating new technologies shall be considered" (SPO, 2003, p. 46). Hence, the objective was to move from production in labour-intensive sectors, such as textiles, clothing, and leather, to production of high value-added goods and services in technology-intensive sectors, such as automotive, home appliances, machinery, and electronics. This transformation was supposed to enable Turkish industrialists to grow export opportunities in the world economy.

The post-2001 crisis period, therefore, witnessed significant changes in the production and foreign trade performance of the Turkish economy. Imports and exports, as a percentage of the GNP, reached 27% and 18% in 2008, respectively. The export to import ratio declined after the 2001 crisis, proving that an increase in exports was not enough to narrow the trade deficit. The high current account deficit was a critical vulnerability for the Turkish economy. However, as the 2008 global crisis affected the Turkish economy mainly through the trade channel, there was a sharp decline in the value of exports, following global trends. As a result, the current account deficit to the GNP fell sharply in 2009, though it rose again in 2010 (see Table 5.1).

Table 5.1: Turkey's Main Economic Indicators

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GDP growth	6.8	-5.7	6.2	5.3	9.4	8.4	6.9	4.7	0.7	-4.8	8.9
UE rate (%)	6.5	8.4	10.3	10.5	10.8	10.6	10.2	10.3	11.0	14.0	11.9
Export /Import (%)	51.0	75.7	69.9	68.1	64.8	62.9	61.3	63.1	65.4	72.5	61.4
Import/GNP (%)	20.5	21.0	22.4	22.7	25.0	24.3	26.5	26.2	27.2	22.9	25.2
Export/GNP (%)	10.5	15.9	15.6	15.5	16.2	15.3	16.2	16.5	17.8	16.6	15.5
Current Account/GNP (%)	-3.7	1.9	-0.3	-2.5	-3.7	-4.6	-6.1	-5.9	-5.7	-2.3	-6.5

Source: Undersecretariat of the Prime Minister for Foreign Trade, the Undersecretariat of Treasury

While exports increased by an annual average rate of 23% between 2002 and 2008, imports increased by 25.6% (see Table 5.2). The higher growth of imports relative to exports is related to the Turkish economy's dependency on imports. In contrast to countries where the capitalist production is fully developed in the earlier phases of capitalism, as a late-developing country, the production of means of production in Turkey has not yet been sufficiently developed. A shift towards production and export of higher-value added goods has required importing intermediate goods. Under these circumstances, the high share of intermediate goods in imports was maintained throughout the 2000s (see Table 5.2).

Investigating Turkish exports and imports by commodity groups shows that the share of investment and of intermediate goods in exports increased in the post 2001 era while the share of consumption goods decreased. An analysis reveals that the majority of imports are intermediary goods, which is in accordance with the aforementioned import dependency of the Turkish economy.[82]

[82] Yükseler and Türkan (2006) provided valuable insights into the transformation of production and foreign trade in Turkey in the post-2001 crisis period. They characterised the transformation as a process of internationalisation and increased import dependency, and pointed out the increasing ratios of imports to production and imports to supply in manufacturing industries.

Table 5.2: Exports and Imports by Commodity Groups (%)

	Imports				Exports			
	Change %	Share of Capital Goods	Share of Intermediate Goods	Share of Consumption Goods	Change %	Share of Capital Goods	Share of Intermediate Goods	Share of Consumption Goods
1994	-20.9	22.4	71.2	5.9	18.0	4.0	45.4	50.6
1995	53.5	22.7	70.2	6.8	19.5	3.8	41.4	54.7
1996	22.2	23.7	65.9	10.1	7.3	4.8	42.1	53.0
1997	11.3	22.8	65.6	11.0	13.1	5.1	42.1	52.8
1998	-5.4	23.2	64.4	11.6	2.7	5.2	41.5	53.3
1999	-11.4	21.5	65.3	12.4	-1.4	6.8	40.8	52.3
2000	34.0	20.8	65.5	13.3	4.5	7.8	41.6	50.4
2001	-24.0	16.8	72.4	9.9	12.8	8.5	42.7	48.7
2002	24.5	16.5	72.6	9.7	15.1	7.7	40.6	51.2
2003	34.5	16.3	71.7	11.3	31.0	9.2	39.1	51.1
2004	40.7	17.8	69.3	12.4	33.7	10.3	41.1	48.3
2005	19.7	17.4	70.1	12.0	16.3	10.9	41.2	47.4
2006	19.5	16.7	71.4	11.5	16.4	11.0	44.2	44.2
2007	21.8	15.9	72.7	11.0	25.4	12.8	46.1	40.7
2008	18.8	13.9	75.1	10.6	23.1	12.7	51.3	35.7
2009	-30.2	15.2	70.6	13.7	-22.6	10.9	48.7	39.9

Source: Author's adaptation from TURKSTAT.

An analysis of the composition of production and exports reveals that the intended shift from low-value added goods to high-value technology goods in Turkish exports reached its maximum between 2001 and 2005. Table 5.3 shows the considerable shift in production and exports towards medium- and high-tech products during that period. While in 2002, textiles, yarn, and food-related sectors dominated the Turkish production and its exports, by 2008, there was a marked increase in production and exports in the technology sectors, such as motor vehicles and electrical machinery (Yörükoğlu & Atasoy, 2010).

Table 5.3: Annual Change in Production and Export by Technological Intensity

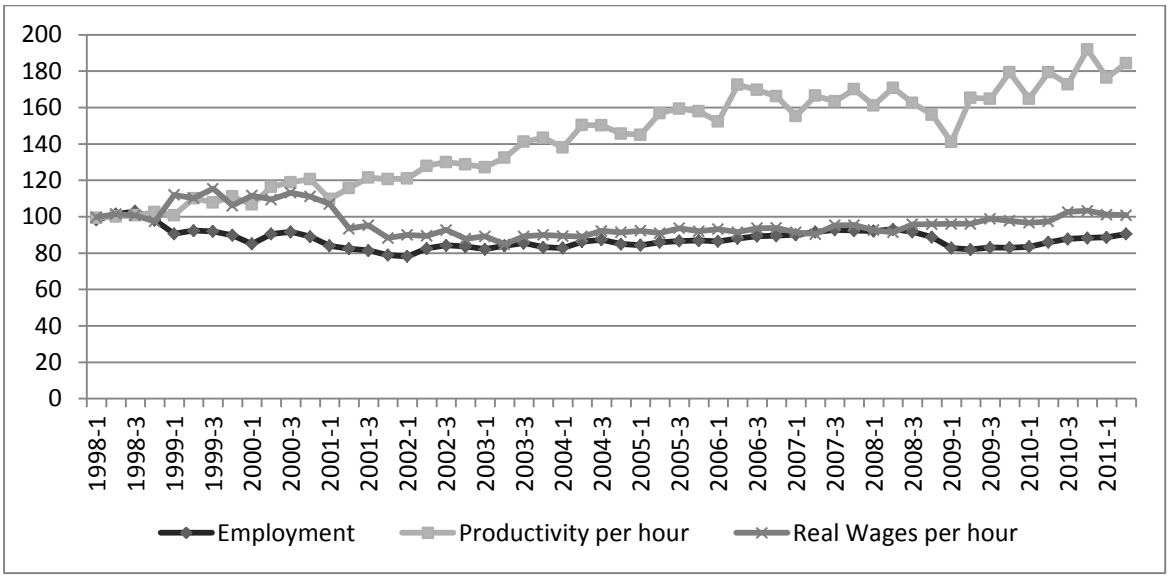
	1997–2001	2001–2005	2005–2007	2008	2009
Production					
High	2.91	19.41	-15.74	-3.69	-20.06
Upper-medium	-5.19	17.40	10.98	0.90	-17.67
Lower-medium	-1.73	7.51	5.47	-2.91	-17.26
Low	-0.36	2.36	2.1	-2.95	-7.37
Export					
High	24.6	25.28	8.03	3.29	-25.02
Upper-medium	14.03	30.99	29.37	17.72	-28.86
Lower-medium	6.51	28.95	29.27	54.23	-33.09
Low	2.7	17.89	11.48	7.2	-16.9

Source: TÜSİAD (2009)

How did the Turkish economy manage to increase its competitiveness in the global markets and achieve the shift into exporting more technology intensive goods? In the aftermath of the 2001 crisis, the devaluation of the Turkish currency led to an acceleration in exports, but post-2001, the TL appreciated, leading to an increase in imports. Normally, appreciation of the TL decreases the competitiveness of Turkey's exporting firms. However, these firms partly benefited from the appreciation of the TL because of the decreasing cost of imports. Furthermore, exporting firms were able to evade the negative effects of the appreciation because Turkey has mainly imported raw materials and intermediary goods from East Asia, denominated in US dollars, while it has exported final products to EU countries (Doğruel et al., 2010). Hence, Turkey benefited from the appreciation of the Euro against the US dollar when exporting goods to EU markets.

Arguably, the most important factor behind the ability to accelerate exports and compensate for the impact of the TL's appreciation is Turkey's reduction in labour costs. Keeping wages low has been a fundamental tool in maintaining international competitiveness. This can be seen through an analysis of the manufacturing sector which experienced the most remarkable rise in exports; the annual average growth rate of exports in this sector was 23.5% between 2002 and 2007 (see Figure 5.1).

Figure 5.1: Performance Indicators of Manufacturing Industry, Indices (1997=100)



Source: Author's adaptations from TURKSTAT

The labour productivity index, measured in real output per hour, remarkably rose in the post 2001 period, reaching 184% in 2010, as can be seen from Figure 5.1. However, real wages stagnated through much of the 2000s, and only reached the 1997 level in 2010. Accordingly, the gap between real wages and productivity substantially increased, indicating the squeezing of real wages. Moreover, there has also been a decline in the number of workers in the manufacturing sector, as can be seen from the employment index (see Figure 5.1). The crises periods (2001 and 2009) marked sharp declines in the number of workers, which still has not risen to 1997 levels. This has been the general trend in employment in the economy as a whole, as will be elaborated on in the next section.

5.2.2 Labour Market Dynamics and Welfare Policies in the Post-2001 Crisis Period

The so called "achievements" of Turkey's integration into the global markets after the 2001 crisis have occurred at the expense of informalisation of the labour market, stagnant real wages, and less employment. Yeldan (2011) reported that the ratio of unregistered employment to total employment fluctuated around 45% or 50% during the 2000s, and that informal labour bore the burden of adjustment to the 2001 crisis, after which time wages declined and the quality of jobs worsened.

Another point to consider regarding the labour market was that between 2002 and 2007, unemployment fluctuated in a narrow band, and increased dramatically as a result of

the 2008 global crisis, reaching 14% at the end of 2009 (see Table 5.1).[83] As Yeldan (2007) stated, jobless growth was a characteristic of the entire post-2001 decade in Turkey. High growth rates did not translate into creation of new jobs. There are several reasons for the persistence of unemployment during this decade. One is related to the changing dynamics of production, as elaborated in the previous section. As aforementioned in the discussion on the eighth Five Year Development Plan (2001–2005) of the State Planning Organisation, the objective was to move Turkey's industrial sector towards higher valued-added production. In practice, however, the transformation has led to import-dependent, assembly-line industries with limited ability to generate value added and employment (Yeldan, 2007).

The significant decline in agricultural employment in the post-1980 era has also contributed to the persistence of high unemployment rates. The Structural Adjustment Policies (SAPs) supported by the IMF and the World Bank targeted Turkey's industrialisation and integration into the global economy. Previous to these SAPs, there were considerable regulations and state support for Turkey's agricultural sector, but afterwards price regulations were removed and state subsidies were reduced. As a result, production and employment in agriculture declined. Boratav (2007) pointed out that the percentage of agricultural employment fell dramatically from 60% to 27% between 1980 and 2007. There was a sharp decline of nearly 2.8 million people from agricultural employment between 1999 and 2006 (Boratav, 2007). Although employment in industry and services has increased, the loss in agricultural employment cannot be compensated for (Özdemir & Yücesan-Özdemir, 2004).

Finally, contrary to expectations, flexibility in the labour markets in the context of export-led strategy did not lead to employment growth.[84] Increased international competition led to Turkey to lower its labour wages but not increase its employment rates (Onaran & Aydiner-Avsar, 2006). From 1980s onwards, labour market deregulations were continuously approved by legislative changes, as discussed below. The military coup of 1980 prepared the way for repressing the organised workers and putting severe restrictions on trade union rights. The post-1980 period witnessed increased labour market flexibility via informalisation, extension of fixed contracts, hiring of temporary workers, and restrictions over workers' right (Özdemir & Yücesan-Özdemir, 2004). Thus, the so-called distortions in the labour market, which are supposed to have negative effects on employment, were removed. Quite contrary

[83] According to a report released by the Foundation for Social Researches (SAV), the number of unemployed stood at 4.5 million in September 2008. As the impact of the global crisis deepened, it reached 5.2 million in September 2010 (SAV, 2010).

[84] As discussed in Chapter 3, deregulation of labour markets was supported as a solution to the unemployment in the 1990s.

to expectations, these adjustments did not stimulate employment, and unemployment has remained a persistent factor in Turkey's economy.

Contradictions in capital labour relations reached their peak in the 2000s, along with the transformation of production and export structures as a part of Turkey's deepening integration into the world economy. Creation of a flexible labour market was a necessity in order to compete with global markets. Labour shedding and increases in working hours have been important factors in the increase of productivity, in the aftermath of the 2001 crisis, rather than advances in technology (Yeldan, 2005). According to a Labour Market Study by the World Bank, average working hours are higher in Turkey in comparison to many other middle- and high-income countries. "Average working hours in Turkey are high…even relative to Korea, traditionally known as a country with long working hours. Further, working hours in Turkey have been increasing, while working hours in European counties have been falling" (World Bank, 2006, p. 83).

Legislative changes were instrumental in the transformation of the labour markets. In 2003, a new Labour Act (No. 4857) was introduced, replacing an older Labour Act (No. 1475), which had been in effect since 1971.[85] The objective of the new act is to regulate "right and obligations regarding working conditions and work environment of employers and workers employed based on labour contract" (article 1).[86] Indeed, the new act was designed, in part, to deal with employer concerns over the lack of flexibility in terms of employment type and work hours (Kenar, 2009; Tunali, 2005). It introduced new types of employment such as fixed-term work, subcontracting, compensation work, and on-call employment. As argued by Özdemir & Yücesan-Özdemir (2006), the new law further shifted the balance of power from labour to employer by changing the meaning and conceptualization of subordination and altering the conditions of work. Under the new law, employers determine the conditions of work, so their power over workers increased. As described by Özdemir & Yücesan-Özdemir (2006), employers now may: force workers to take time off instead of pay for overtime; regulate working hours up to a maximum of 11 hours per day; determine the start of each work day and break times; sign a contract in conflict with a collective labour agreement; demand overtime work in return for only 25% extra pay in certain cases; and lay off workers without paying severance. Hence, the new law lessened workers' and enhanced employers' power (Özdemir & Yücesan-Özdemir, 2006).

[85] The Labour Act provides the most fundamental and comprehensive regulations governing employer and labour relations in Turkey based on labour contracts (Özdemir & Özdemir-Yücesan, 2006).
[86] http://www.ilo.org/dyn/natlex/docs/SERIAL/64083/63017/F1027431766/TUR64083.PDF (accessed 2 June 2011).

Based on the discussion above, it is safe to argue that Turkey suffered the effects of the 2008 global crisis at a time when exploitation in the labour process had already been intensified. The global crisis led to a sharp contraction in foreign trade and production, so conditions for Turkey's workers even worsened. Mass layoffs resulted in a dramatic increase in unemployment. In this context, the pressure of capital over labour intensified and the 2008 crisis created an opportunity to accelerate flexible and precarious work arrangements.

It is the argument of this dissertation that deterioration of labour market conditions laid the foundation for the increased vulnerability of workers to debt problems. The stagnation of real wages, reductions in overtime pay, increased termination of employment without severance pay, and losses in social rights increased the need to have external resources to make end meets. Once indebted and needing to make credit or interest payments, workers found themselves having to accept these new employment arrangements: worse working conditions, longer work hours, unpaid leave, and working overtime for lower pay.

Last but not least, apart from the deterioration of working conditions and earnings, in the post-2001 crisis period there have also been welfare losses related to reforms in Turkey's social security system, including in health and pension provisions. Turkey has increasingly adopted neoliberal policies regarding social security systems advanced by international institutions, namely, the IMF and the World Bank. In this context, the role of the markets has gradually increased the welfare provision. The social security reform was legitimised because of the need to reduce the country's fiscal deficit in the aftermath of the crisis.[87] One of the most important steps was the enactment of the new Law on Social Security and General Health Insurance in 2008, which accelerated the commodification of social security and public health (Coşar & Yeğenoğlu, 2009). Regarding social security, the new law significantly modified the pension system by both lengthening a worker's contribution period and shortening the benefit collection period by gradually increasing the retirement age, until the year 2048, to 65 years.

In Turkey, the pension system has traditionally relied on a state-funded "pay as you go" system financed by contributions of the current workforce and through a deficit guarantee of the state (Elveren, 2008). With the enactment of the private pension law in 2001, there has been a shift toward a "defined contribution" system in order to support the

[87] It should be mentioned that targeting the deficit in the social security system as a way to help reduce the overall fiscal deficit was a political decision. The burden of interest cost was also a major determinant of the rise in the fiscal deficit. The ratio of total interest payments to tax revenues reached to 103.3% in 2001 (Elveren, 2008). Moreover, it is also important to stress that the problems in the social security system are rooted in the decline in public investment, high unemployment, and high unregistered employment. The ultimate solution to the problem in the social security system lies in tackling these problems.

existing system by involving the private sector in the pension system. However, despite the existence of a private pension system, as in many other developing countries, the defined benefit system constitutes the bulk of the pension system in Turkey. With respect to health insurance, the 2008 law introduced additional contributions and marginal payments in addition to the obligatory premiums. All totalled, while the cost of social insurance has increased for employees, the benefits they receive has been reduced (Çoşar & Yeğenoglu, 2009).

To recap, with the introduction of neoliberal policies, the state increasingly retreated from welfare provisions in Turkey, as has happened in many other countries. The process further deteriorated the financial situations of wage earners while retaining the stagnation in wages. At this point, it should be clarified that although the privatisation of public goods is an element in the financialisation of individual income in developing countries, as well as developed countries, its extent is smaller. Furthermore, the role of private pension funds and health insurance companies are still limited in developing countries. Therefore, it can be argued that the financialisation of personal income is mainly related to financing consumption: the restructuring of the welfare state seem to contribute to the need for borrowing through increasing fixed-living expenses.

Overall, drawing on the evidence from rising indebtedness among wage earners and low-income households, this dissertation argues that the deterioration in the household budgets of wage earners was an important reason behind the rising demand for consumer loans in the 2000s in Turkey, and it remains the case today. Against the combined pressures of rising unemployment, stagnant real wages, privatisation of public goods, and deregulation of labour markets, wage earners have become more dependent on borrowing. Arguably, along with financialisation and, in particular, banks' shift toward consumer lending, medical care, school fees, and other basic needs have been met by bank loans. As mentioned in Chapter 4, the dramatic rise in personal consumer loans and credit cards compared to total bank loans seems to support this argument.

5.3 Assessing the Rise in Household Indebtedness from the Supply Side

5.3.1 Banking Sector Reforms in the Aftermath of the 2001 Crisis

The former vice president of the World Bank, Kemal Dervis, was appointed as Turkey's Minister of Economic Affairs and Treasury after the crisis. Under his management, a new IMF-led program, Transition to the Strong Economic Program (TSEP), was launched.

The program targeted disinflation, fiscal discipline, and structural reforms in the banking sector. Having faced big bank failures before and after the crisis, banking sector problems were identified in the TSEP as the most urgent in the economy that needed addressing (Ertürk, 2003). A specific program for the banking sector, the Banking Sector Restructuring Program (BRSP), was introduced under the TSEP. The program was carried out by the Banking Supervision and Regulation Agency (BRSA). There are four main pillars of the BRSP: reforming the state banks, resolution of the banks under management of Savings Deposit Insurance Fund (SDIF), strengthening the private banks, and strengthening the legal and institutional environment (BRSA, 2001).

In fact, even before the 2001 crisis, it was recognised that a sound banking and financial system was crucial for the stability of the economy. A reform process had already been initiated in the banking and financial sector in the late 1990s, aimed at financial restructuring of state banks, strengthening of private banks, and improving prudential regulation and supervision. An independent management team was regarded as necessary for a sound financial and banking system, so the BRSA was established, under the strong influence of the IMF. The BSRA was granted full autonomy, and it took an active role in saving solvent banks after the crisis and in the debt restructuring process. Although both a new banking law was enacted and the BRSA was established in 1999, reformation of the banking sector gained momentum only after the 2001 crisis through the introduction of the May 2001 BSRP. This is because implementing regulations in the banking sector was difficult because they were in opposition with the interests of some bank owners. For instance, regulations about higher liquidity and capital adequacy requirements were not easy to meet, especially by small banks. While small banks opposed such regulations, banks that had taken precautionary measures in advance and were able to meet the new requirements were in favour of the reform process. In this sense, it can be stated that the crisis created an opportunity to reform and restructure the banking sector, even with opposition from some fractions of capital. Furthermore, the IMF conditionality is a crucial factor in understanding the speed of the major banking sector reforms undertaken in Turkey after 2001.[88] Because the crisis resulted in a severe liquidity shortage in the Turkish domestic markets, there was an

[88] In the aftermath of the 1997 Asian crisis, the IMF put more emphasis on the importance of regulations in the financial and banking sector, fiscal transparency and accountability, establishment of effective institutions, and good governance. Having strong relations with the IMF, Turkey was one of the countries that closely followed this policy shift in the institution's agenda. For changes in IMF policies, see IMF (2000). For a discussion of IMF's attempts to handle criticisms it encountered in the aftermath of the 1997 Asian crisis, see Alper and Önis (2002).

urgent need for funds from IMF. This situation strengthened IMF's hand and forced the government to fulfil any conditions of the IMF agreement more prudently.

Gültekin-Karakas (2009) put forth that the main motivation behind the reform was to establish necessary institutional and regulatory bases to facilitate global integration. New regulations and reforms were necessary to build a consolidated banking sector that had a prevalence of large, strong, and credible banks capable of meeting international standards. Regulations were also aimed to minimise the risk of international capital being invested in Turkey.

Postcrisis reforms in the banking sector can be traced through two channels. The first channel is the measures adopted to restructure the sector and the second channel is the steps taken to strengthen the legal and institutional structures under which banks operate. Regarding the first, small banks that could not meet international standards with their existing open foreign currency positions or had inadequate capital basis were confiscated. In 2001, eight banks were transferred to the SDIF,[89] with the ultimate goal to prepare these particular banks for privatisation. The resolution of the eight banks transferred to the SDIF was completed immediately through mergers, sales, or direct liquidation.[90] The greatest restructuring of state banks was the merger of Emlakbank and Ziraat Bank, both state-owned, in July 2001. Private banks were required to increase their capital adequacy, and late entrants into the sector that were inadequately capitalised or had weak access to state mechanisms were most at risk during the crisis (Aybar & Lapavitsas, 2001b). These banks were either sold off or merged with other banks. Thus, the immediate consequence of the reforms was increased concentration in the sector. The leading banks that were large and solvent were not affected by the crisis, and the reform process actually provided them with an opportunity to increase their shares in the sector. This was evident in the increased share of the four leading banks: Akbank, Is bank, Garanti Bank, and Yapi Kredi Bank. They increased their shares in the market as a result of the crisis. These banks' share in total assets increased from 28.1% at the end of 2000 to 41.3% by the end of 2001 (Köne, 2003). The only bank among these four with some problems was Yapi Kredi. While the new banking reforms consolidated or dissolved many of the small banks, being one of the largest banks in Turkey, Yapi Kredi was not reconfigured (Güven, 2008). The bank was later purchased by one of the biggest business

[89] The banks transferred to the SDIF were Ihlas Finans, Ulusal Bank, Iktisat Bank, EGS Bank, Bayındırbank, Kentbank, Tarisbank, Sitebank, Toprakbank. With the transfer of these banks, the number of banks owned by SDIF was raised to 18 at that time.

[90] For a detailed analysis of the resolution of banks transferred to the SDIF, see BRSA (2009).

groups, Koc Group, and became one of the leading competitors in retail banking (Güven, 2008).

The effects of restructuring the banking sector can be seen in the trends in structural indicators of the sector in the post-2001 era. As seen in Table 5.4, the number of deposit accounts, bank personnel, and ATMs all substantially increased in the postcrisis period.

Table 5.4: Structural Indicators of Banking Sector and Profitability

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
# of Banks	61	54	50	48	47	46	46	45	45	45
# of Branches	6,908	6,106	5,966	6,106	6,247	6,849	7,618	8,790	9,027	9,465
# of Employees	137,495	123,271	123,249	127,163	132,258	143,143	158,534	171,598	172,402	178,503
Net Profit/Equity	-76.5	9.2	15.8	14	10.6	18.9	19.5	15.4	18.3	16.5
Net Profit/Assets	-6.6	1.1	2.2	2.1	1.4	2.3	2.6	1.8	2.4	2.2

Source: BAT

While the sector grew in size in terms of branches, employees, assets, and so on, the only indicator that did not increase was the number of banks. With reconstruction of the banking sector, the number of operational banks declined from 61 to 45 between 2001 and 2010.[91] This decline, in the face of the remarkable increase in the balance sheets of the banks, is an indicator of the increased concentration in the sector.

The immediate effects of restructuring the banking sector were the sharp increases in the asset, deposit, and loan shares of the top banks in 2002 (see Table 5.5), and the trend has continued. In 2000, the concentration ratio of the five largest banks, depending on asset size, was 48%, while the share of the top ten banks was 69%. As of 2010, these ratios rose to 63% and 87%, respectively. As aforementioned in discussing the credit card markets, an

[91] Thirty-one of the 45 banks are commercial banks. Within these 31 commercial banks, 3 are state owned, 11 are private, and 17 are foreign banks. Of the remaining 14 banks, 13 are investment and development banks and 1 is the Joint Funds Bank that is established under SDIF ownership to manage operations of those banks that are in the process of liquidation.

oligopolistic market structure paved the way for greater power of banks over their customers by defining the terms and conditions of transactions.

Table 5.5: Concentration Within the Banking Sector (%)

	2000	2002	2007	2010
Largest Five Banks				
Total Assets	48	58	62	63
Total Deposits	51	61	64	66
Total Loans	42	55	57	57
Largest Ten Banks				
Total Assets	69	81	85	87
Total Deposits	72	86	89	91
Total Loans	71	74	83	86

Source: BAT (2008, 2010a)

Note: Largest banks in terms of total assets.

The growing concentration in the sector went hand in hand with the remarkable rise in its profits in the postcrisis period (see Table 5.4). While the net profits to assets ratio increased from 1.1% in 2002 to 2.2% in 2009, the ratio of net profits to equity rose from 9.2% to 16.5% over the same period. The Turkish banking sector remained profitable even after the 2008 global crisis, showing its remarkable resilience.

The second channel through which postcrisis reforms took place was via strengthening the legal and institutional structures in order to establish confidence in the sector (BRSA, 2001). One of the measures was the introduction of new legislation to regulate ownership of banks. A bank's nonfinancial subsidiaries were now restricted to 15% of the bank's total net worth, and the total sum of all such subsidiaries were restricted to 60% of total net worth, with a transition period until 2009 (BRSA, 2001). This is a benchmark change in banking's ownership structure because it ends the dominance of holding banks. Separating out the financial and industrial conglomerates from each other (see chapter 4) was crucial in establishing internationally competitive banks. The goal in breaking up these holding companies was to create banks that are independent capitalist enterprises, not joint bank–business ventures where banks channelled funds to its affiliated holdings.

There were also some other measures taken to upgrade the banking regulatory structure to EU standards. The legal amendment defining the "own fund" was introduced to make the regulations fully consistent with EU standards, the definition of credit was standardised to include derivative-type operations, and rules were introduced regarding provisions against bank losses (BRSA, 2001). An immediate effect of these new regulations was increased interest by foreign investors in taking over Turkish banks. Foreign banks were now treated the same as domestic banks by the legislation. Another vital factor that also contributed to foreign banks entering Turkey was that Turkish banks could be purchased cheaply after the crisis. Foreign banks could purchase now-consolidated banks directly, or could take them over indirectly after they were sold to domestic banks (Bakir & Önis, 2010). In some cases, the state banks, taken over by the SDIF, or private banks in trouble, were put up for sale to foreign investors at very low prices.[92] The banks were then recapitalised with public money, therefore public money was transferred to international investors.

Domestic capitalists were in favour of greater foreign presence in the sector because of difficulties in meeting the new regulations under the Banking Sector Restructuring Program. Specifically, the new capital adequacy ratios set by the BRSA were difficult to meet, but foreign bank participation could make it easier to strengthen domestic banks' capital structure and increase their competitiveness. As discussed in Chapter 3, foreign banks have been an important factor behind the rise in consumer lending in many developing countries. The implications of greater foreign presence on consumer lending for the Turkish economy will be elaborated on later in this chapter.

Clearly, the reform process presented above cannot be assessed as the sole reason behind the major structural transformation of the Turkish banking sector. Internationalisation of capital and related policy changes are also crucial in understanding the financial sector's transformation. Domestic capitalists' desire to be further integrated into the world economy was a key imperative in the postcrisis economic developments that had impact on both the real and financial sectors. Fiscal discipline and inflation targeting were major policies which had a crucial effect on how the banking sector functioned as elaborated in the next section. The point to consider here is that reforming Turkey's banking sector was instrumental in ensuring its smooth functioning in the new monetary policy environment.

[92] A notable example is the case of Demirbank. The SDIF took control over the bank and sold it to HSBC in 2001.

5.3.2 Policy Framework of the Post-2001 Era and the Implications for the Banking Sector

As elaborated in Chapter 4, the Turkish economy experienced chronic inflation, high interest rates, and a huge public deficit in the 1990s, conditions that erupted into the 2001 crisis. The key elements of the post-2001 reform program were tight monetary policy and fiscal disciplining. Along with facilitating deeper integration into the world economy, these policies also had major impact on the banking sector. For this reason, this section will analyse the policy framework of the post-2001 crisis era, focusing on the implications it had for the banks.

5.3.2.2 Monetary Policy Framework

In 2002, the Central Bank implemented a monetary policy strategy that relied on inflation targeting.[93] Implementation of this strategy was a general trend in the rest of the world, as discussed in Chapter 3. To ensure its smooth operation, a floating exchange rate was implemented as well.[94] In this framework, short-term interest rates were to be used as the main policy instrument and a money base target was to function as a nominal anchor (CBRT, 2005). In addition to the money base target, international reserves became performance criterion and Net Domestic Assets became indicative criterion. Open market operations were to be used for sterilisation policies.

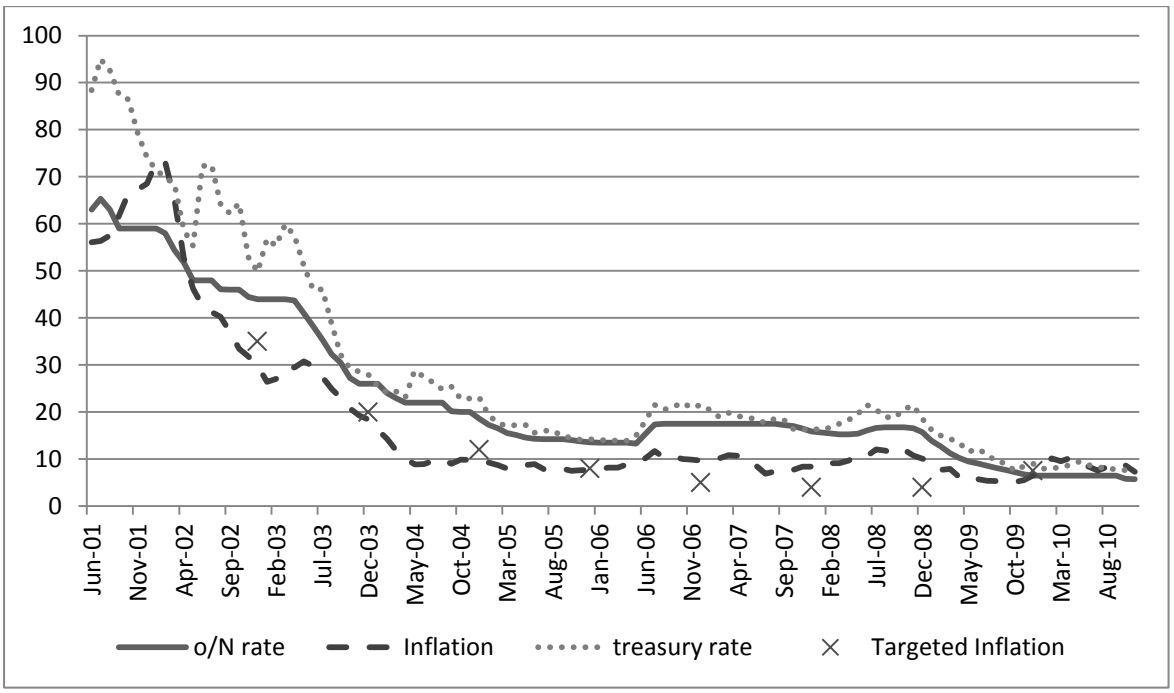
With the implementation of new monetary policies, inflation began to decline, as can be seen from Figure 5.2. Until 2006, realised inflation was below targeted rates. The continuous capital flows (which resulted in appreciation of the TL) and the stagnation of real wages were key factors that brought inflation down to low levels. Given that the monetary growth was under control, the Central Bank gradually reduced short-term interest rates. Long-term interest rates responded to the changes in short-term rates, so the Treasury's borrowing rates

[93] The Central Bank of Turkey adopted an "implicit IT" regime at the beginning of 2002, and since 2006, the bank has committed itself to an "explicit IT" regime. The main motivation behind the implementation of IT was declared as reducing the inflation rate and deepening the financial markets, thus, achieving high growth rates. In essence, these policies have been instrumental in fulfilling the requirements of domestic capital by promoting integration with international capital. Price stability, accompanied by a stable macroeconomic environment, was essential to attract capital flows.

[94] The theoretical justification for this requirement comes from the famous trilemma. According to the theory, in the absence of capital controls, central banks can only control exchange rates or monetary policies. For a critique of the theory, see Epstein and Yeldan (2008). These authors stated that, "the constraints of the trilemma could as well be regarded as the boundaries of a *continuous* set of policies, as would emerge out of a bounded, yet continuous depiction of a '*policy triangle'*. Thus, even within the boundaries of the trilemma a menu of choices does exist, ranging from administered exchange rate regimes to capital management/control techniques" (Epstein & Yeldan, 2008, p. 139).

declined as well. The improvements in monetary indicators established that by 2006, Turkey and the Central Bank were ready for a full-fledged IT agenda. Accordingly, the Central Bank committed itself to an "explicit IT" strategy.

Figure 5.2: Overnight Policy Rates, Treasury Rates, and Inflation (%)



Source: CBRT and Undersecretariat of Treasury

Note: The Overnight interest rate is a weighted simple interest rate, the annual percentage change in a CPI is used as a measure of inflation, and for Treasury rate, yearly compounded interest rates of auctions within the month are weighted by quantity.

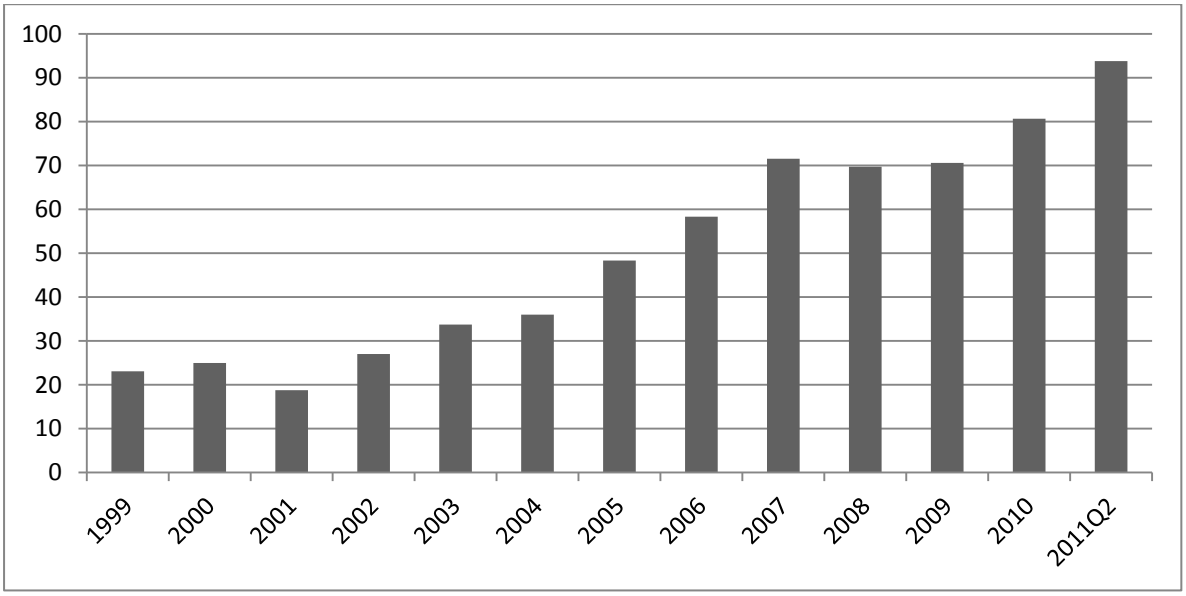
As mentioned in the beginning of this section, together with the IT strategy, a floating exchange rate regime was adopted in the aftermath of the 2001 crisis. Exchange rates were to be determined by supply and demand conditions in the market; however, the Central Bank announced that it could intervene in the case of excess volatility. Furthermore, the Central Bank conducted foreign exchange purchase operations in order to be able to build foreign exchange reserves, as elaborated below. Despite the substantial amounts of foreign exchange purchased by the Central Bank, because of the existence of excess liquidity in the global markets, letting the exchange rates float created strong appreciation of the TL.

Overvaluation of the domestic currency was desirable by the Central Bank to help control inflation. The new exchange rate regime was also in accordance with the new industrial policy in the postcrisis era, because an overvalued exchange rate had become an

inevitable condition for maintaining Turkey's import-dependent export strategy. An overvalued exchange rate stimulated both the import of investment goods and consumption goods. Hence, the economy experienced an increase in its current account deficit. As can be seen in Table 5.1, in 2008, the current account deficit of the Turkish economy was nearly 6% of the GNP, constituting an important weakness for the economy. Due to the effect of contractions of foreign trade on a global basis, the ratio declined to 2.3% by the end of 2009. However, this decline appeared to be temporary, as the ratio rose to 6.5% in 2010.

As mentioned in the beginning of this section, one of the main pillars of the monetary policy framework in the post-2001 crisis era was a reserve accumulation strategy. Building up foreign exchange reserves was important for two main reasons. The first was because, with the 18th stand-by agreement signed in January 2002, the previous $US 9.4 billion IMF credit was raised to $US16 billion, covering 2002–2004. International reserves became a performance criterion in order to make debt repayments to the IMF (Uygur, 2010). The second reason, as discussed in Chapter 3, is that developing countries adopted a reserve accumulation strategy as a precautionary measure after they experienced severe financial crises triggered by sudden capital outflows. Turkey was not an exception. Accordingly, the era witnessed a remarkable rise in foreign exchange reserves, as can be seen from Figure 5.3.

Figure: 5.3: Foreign Exchange Reserves of the CBRT (in $U.S. billions)

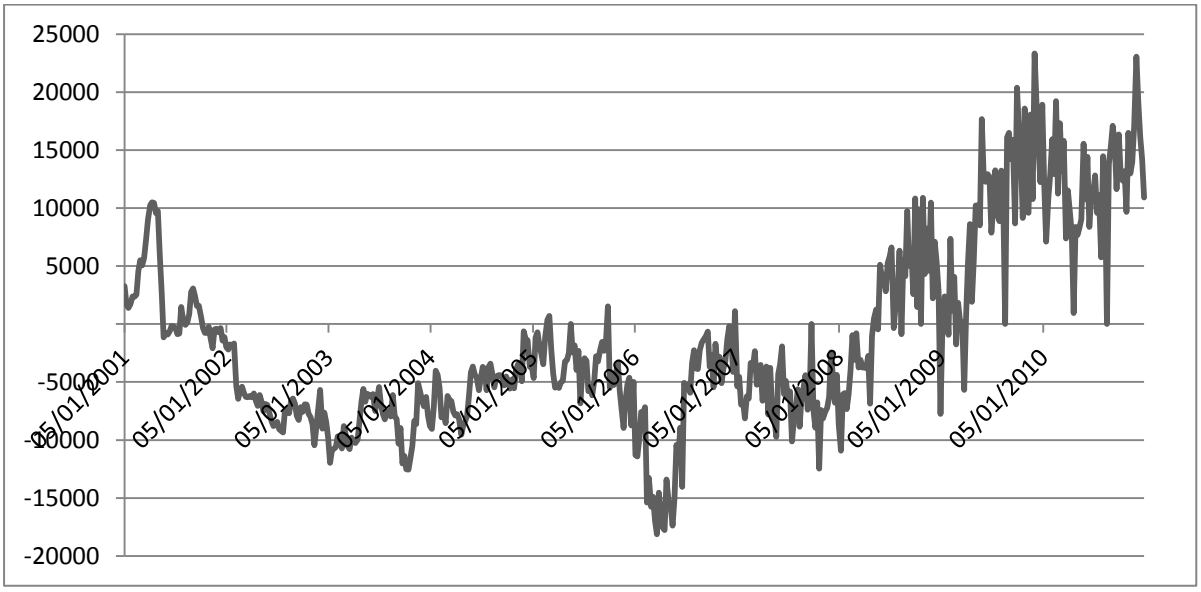


Source: CBRT

To avoid the inflationary impact of the increasing foreign exchange reserves, like many other developing countries around the world, the Central Bank of Turkey issued

sterilisation measures (see Chapter 3). The main tools that it used were Turkish New Lira (TRY) deposit operations in the interbank money market and overnight reverse repo transactions in the Istanbul Stock Exchange repo market (CBRT, 2011a).[95] Figure 5.4 shows the volume of the open market transactions undertaken to withdraw excess liquidity from the markets between 2002 and 2008.

Figure 5.4: Net Open Market Transactions (in TL millions)



Source: CBRT

What has been the effect of sterilisation on the issuance of public securities? As discussed in Chapter 3, sterilisation of increasing foreign exchange reserves in the 2000s led to a deepening of domestic public debt markets in developing countries. In the BIS publication (CGFS, 2007), it stated that the issuance of central bank securities is an important tool of sterilisation in some countries and provides a particular measure of the scale of sterilisation.

The Central Bank law in Turkey empowers the Central Bank to issue its own liquidity bills with maturities of up to 91 days that can be traded in secondary markets (Yörükoğlu & Çufadar, 2008). However, it did not issue any until July 2007,[96] the main reason being that its

[95] The CBRT has five types of instruments for the implementation of open market operations: outright purchases, outright sales, repo, reverse repo, and liquidity bills.

[96] There was an upsurge in the excess liquidity in the beginning of 2007, mainly due to the Central Bank's renewed foreign exchange purchase auctions. As a reaction to this, the Bank decided to use its liquidity bills to enhance sterilisation with the existing open market instruments. The first liquidity bills, totaling TL 735 million, were issued on 20 July 2007. At the end of 2007, the Central Bank withdrew liquidity of TL 3.9 billion, including TL 2.9 billion at overnight maturity and TL 1.0 billion via liquidity bills (CBRT, 2008c). At the same

own debt instrument could offer an alternative to the securities issued by the Treasury that could cause fragmentation in the secondary markets (Taner, 2008).[97] The liquidity management strategy of the Central Bank was undertaken in coordination with the Treasury's debt management. Hence, arguably, sterilisation was facilitated by the availability of government debt securities that could be presented as collateral. The developments in the domestic public debt market will be elaborated on later in this chapter. However, before turning to this matter, it is useful to review the effects of the 2008 global crisis on Turkey's monetary policy.

The global crisis hit the Turkish economy particularly hard in the last quarter of 2008. This is not to say that 2006 and 2007 were not also difficult years for monetary and exchange rate policies, since the country was affected by the May–June 2006 global turmoil. As soon as the US Federal Reserve announced that the monetary easing cycle had come to an end in April, there was an immediate emerging market sell-off (Alper & Hatipoğlu, 2009). This led to hikes in long-term interest rates and depreciation of the domestic currency in Turkey. Moreover, inflation far exceeded the targeted level in the first half of 2007, and this trend continued because Turkey was affected by the 2008 global crisis. After some easing in the beginning of 2008, the Central Bank raised its overnight interest rates.

Although there had been a remarkable decline in interest rates in Turkey starting in 2002, the real interest rates were still relatively high, averaging 10% between 2002 and 2008. High real interest rates, accompanied by appreciation of the Turkish Lira, offered arbitrage opportunities to foreign investors. Hence, Turkey attracted substantial amounts of capital inflows in the post-2001 crisis era (see Figure 5.9). However, the long period of buoyant capital flows came to an abrupt halt when the global financial crisis intensified. Between the last quarter of 2008 and the first quarter of 2009, Turkey experienced $US13.8 billion capital outflow. This resulted in a liquidity shortage in the markets. As a result, the Central Bank returned to its pre-2002 position of injecting liquidity into the market (see Figure 5.4).[98] The Central Bank has injected liquidity into the market via one-week repo auctions (a basic

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time, the Central Bank also announced that if the excess liquidity conditions persisted, it would consider raising reserve requirements, which would prevent excessive credit growth (Yörükoğlu & Çufadar, 2008). However, starting in 2008, there was no more excess liquidity, so the Bank started to inject liquidity into the market.

[97] As discussed in a joint publication by the World Bank and IMF (2001), when government securities are already in circulation, using the same instrument both for Treasury's funding operations and a central bank's monetary operation could avoid market fragmentation.

[98] While global turmoil was an important reason for the liquidity shortage, domestic factors contributed to the process as well. On the domestic front, "excess liquidity conditions which were created by government bond purchases of the Central Bank in 2001 from public banks and banks within SDIF, and large amounts of FX purchases during the subsequent years, prevailed in the market until May 2008" (CBRT, 2011a).

funding instrument of the Central Bank) since 2008. Furthermore, starting in June 2009, 3-month repo auctions have also been introduced (CBRT, 2011a).

The important point to consider is that post-2001, global developments have played an important role in the monetary performance of the Turkish economy. The decline in inflation and interest rates were very much related to the ample liquidity in the global markets and remarkable capital inflow into Turkey. The increase in inflation and interest rates and depreciation of the Turkish Lira as a consequence of the global crisis are evident in the economy's dependence on the international markets.

5.3.2.2 Fiscal Policy Framework

One of the most important elements of the May 2001 reform program implemented after the 2001 crisis was fiscal discipline, crucial to the new inflation targeting strategy. Both the monetary and the fiscal policies had major effects on banking sector activities because of banks dominant role as holders of Government Debt Instruments (GDIs).

As mentioned above, sustaining the huge public deficit became impossible at the end of the 1990s, and then the 2001 crisis boosted the still-high public deficit once again: it reached 79% of the GDP by 2001. This increase was because funding the huge losses of the banks which had been transferred to the SDIF. A tight fiscal policy was essential to reduce the public deficit and to lower the burden of interest payments on public debt. In accordance with the IMF program, the government announced its primary surplus (fiscal balance excluding interest payments) target as 5% of the GDP for 2002.[99] Having a better fiscal balance would reduce the fragilities in the banking sector associated with its heavy engagement in public deficit finance. The primary surplus target was more or less retained until 2007. The relatively lower interest rates, as well as privatisation and reduction in social expenditures, were instrumental in attaining this ambitious target of primary surplus. As a result, public finance and debt-related indicators improved significantly during the period (see Table 5.6). Between 2001 and 2010, the ratio of public sector debt stock to GDP receded from 78.9% to 45%, and the domestic debt to GDP decreased from 52.3% to 33.4%. Over the same period, the ratio of public sector borrowing requirement (PSBR)[100] to GDP fell from 12.1% to 3.4%.

[99] The given primary surplus ratio is according to the revised GDP series published in 2008. The ratio is 6.5% of the GDP in the previous GDP series.

[100] The PSBR covers the central government budget, state economic enterprises, social security organizations, revolving funds, unemployment insurance fund, local administrations, and other funds.

Table 5.6: Fiscal Balances of Turkey

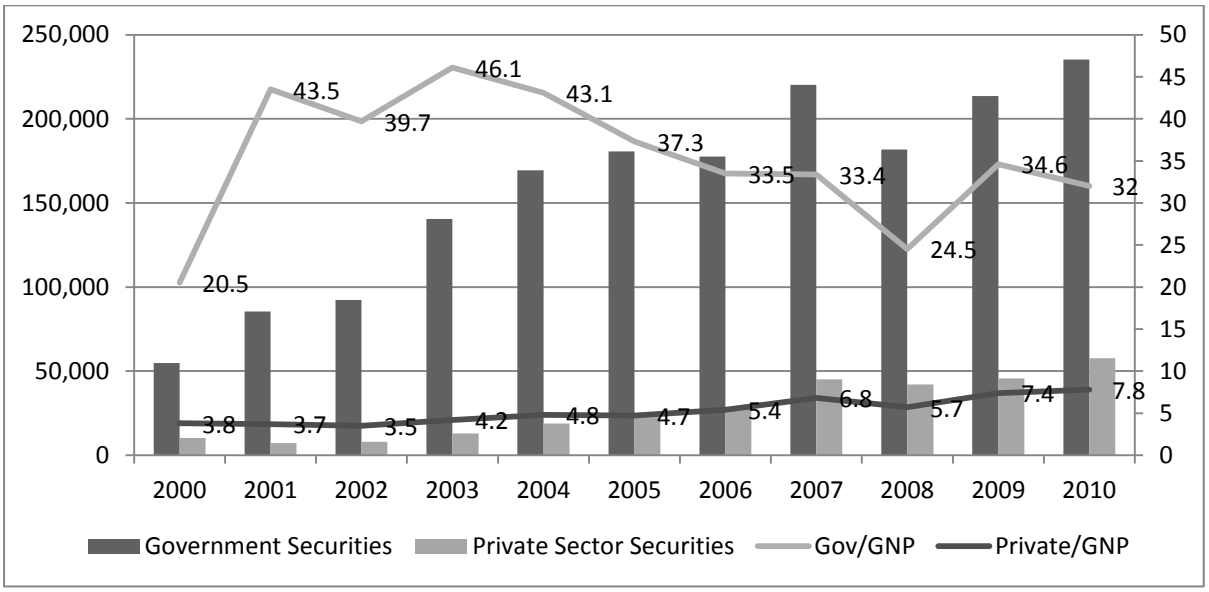
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public Sector Debt Stock/GDP	78.9	73.3	65.4	59.5	54.1	48.2	42.2	42.9	48.9	45.0
Domestic Debt/GDP	52.3	44.2	44.4	42.0	40.0	35.4	32.4	31.1	36.5	33.4
External Debt/GDP	26.6	29.1	21.0	17.5	14.1	12.9	9.8	11.8	12.4	11.6
PSBR/GDP	12.1	10.0	7.3	3.6	-0.1	-1.9	0.1	1.6	5.1	3.4
Primary Budget Balance/GDP	5.2	3.3	4.0	4.9	6.0	5.4	4.2	3.5	0.1	0.8
Real Interest Rate of Domestic Debt Stock	--	--	11.9	9.49	7.96	7.79	7.64	6.45	2.53	1.64

Source: The Undersecretariat of Treasury

Fiscal discipline found its reflection in the government debt market. The ratio of government securities to the GNP reached its maximum in the aftermath of the 2001 crisis, resulting from the settlement of the duty losses of the state banks with government debt securities.[101] However, after this peak, there was a decline in the ratio of government securities to the GNP, as seen in Figure 5.5.

[101] For a detailed analysis of the role of domestic debt swap transactions in the financialisation of the Turkish economy, see Güngen (2011).

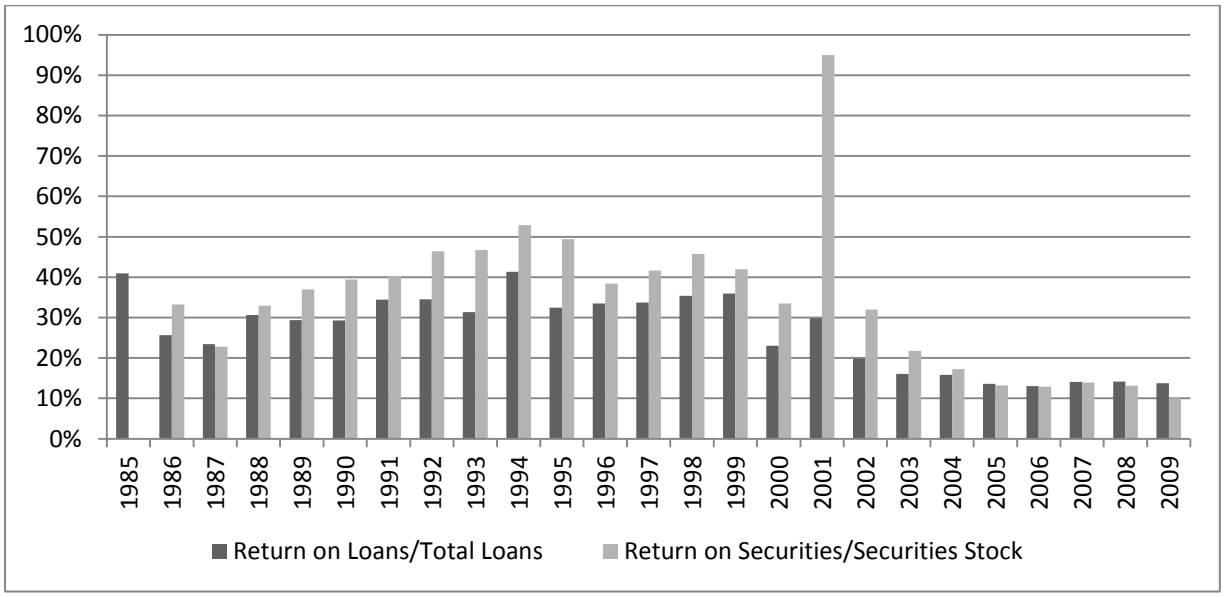
Figure: 5.5: Turkey's Ratio of Outstanding Securities to GNP



Source: CMBT

The importance of this for our purpose is that, although the government debt market remained large in Turkey, the developments in the fiscal and monetary policies put pressure on domestic banks accustomed to earning the majority of their revenue from financing the public deficit. To put this into perspective, it is useful to compare the return on loans to the return on securities since the mid-1980s (see Figure 5.6). While the return on securities was higher than the return on loans starting in the late 1980s, the trend changed in the mid-2000s. After 2002, the return on securities showed regular declines and even reached levels lower than the return on loans. Table 5.6 shows that the postcrisis period witnessed a regular decline in real interest rates on domestic debt, accompanied by a declining trend in public sector domestic borrowing.

Figure 5.6: Return on Loans and Return on Securities (%)



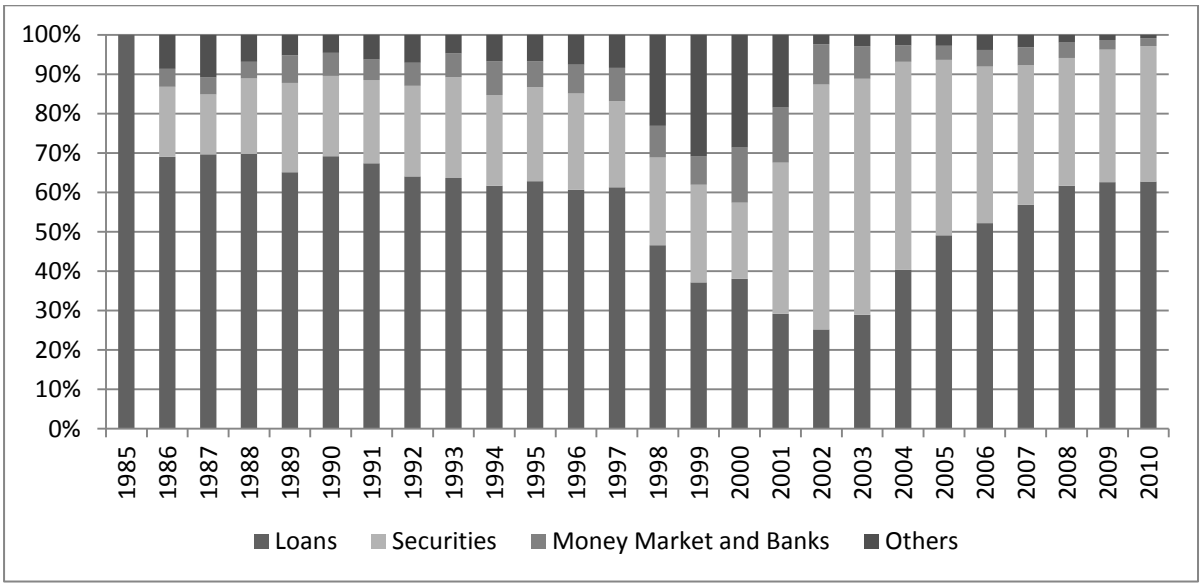
Source: Author's calculations based on data from BAT.

Note: Calculated as interest income from loans/loan stock and interest income from financial assets/financial assets stock.

Prior to 1985, almost all of the interest income in the banking sector originated from interest on loans, as the capital and money markets were not yet formed. From the 1990s onward, the share of interest income from financial assets started to rise as a consequence of the banks financing the rising public sector deficits. The share of the interest income from securities reached its maximum in the aftermath of the 2001 crisis, because of recapitalisation of troubled banks with government securities. Between 2002 and 2009, the ratio of interest income from securities to the banking sector's operating income declined on a regular basis.[102]

[102] It is important to insert a caveat here. Although Turkey's declining interest rates have the effect of lowering a bank's revenues from government securities, as long as the domestic debt stock remains high and interest rates keep their attractiveness, securities in the bank's portfolio would keep their importance as a low-risk source of income.

Figure 5.7: Structure of Interest Income (%)



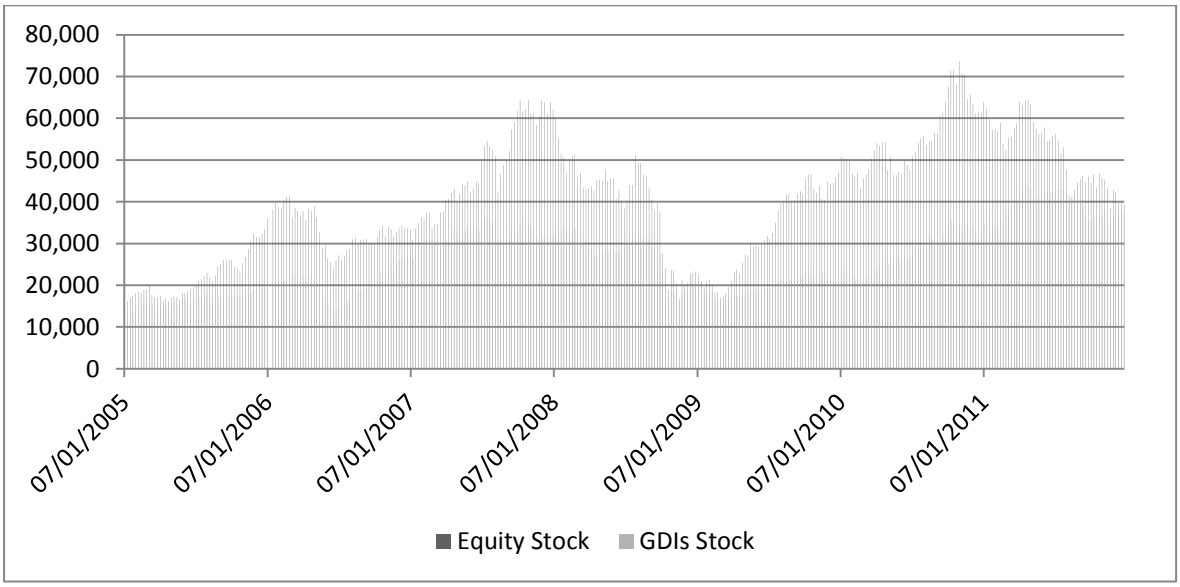
Source: BAT

As seen in Figure 5.7, between 2002 and 2010, the share of interest income from securities, in the total interest income of the sector, declined from 62% to 34%. This declining share might be related to the rise in other components of the interest income, but it still demonstrates the decreased importance of interest income from securities for the banking sector throughout the 2000s. The share of securities in total bank assets also declined, from 40.5% to 28.6% between 2003 and 2010.[103] These developments were related to the monetary and fiscal policies of the era, which led to regular declines in public sector borrowing and interest rates on domestic debt (see Table 5.6).

Another factor to consider regarding the Treasury's declining dependency on the domestic banking sector was the increasing presence of foreign investors in the government debt market. Especially after 2004, there was a rapid increase in new portfolio inflows. Figure 5.8 shows the stock of equities and GDIs held by non-residents between 2005 and 2011, which reached a peak level in 2007 but declined with the 2008 global crisis. After 2009, however, it started increasing once again. As a result, the ratio of equities owned by foreign customers to total equities in the Istanbul Stock Exchange increased from 43% in 2001 to 62% by the end of 2011 (CMBT, 2011). Moreover, the share of non-residents in the domestic debt stock of the government securities increased from 4.4% in 2003 to 17.3% in 2011, according to the Undersecretariat of Treasury statistics.

[103] Data is from the Undersecretariat of Treasury, Monthly Economic Indicators, see <http://www.treasury.gov.tr>

Figure 5.8: Stock of Equities and GDIs Held by Non-Residents ($US Millions)



Source: CBRT

As mentioned above, unsustainability of the huge public deficit and high inflation has been obvious since the end of the 1990s, so bank managers were aware of the necessity of shifting banking practices. It was no longer viable to rely on returns from government securities. Banks adapted to the new environment, particularly by moving into consumer lending activities and increasing commission and fees. Demonstrating the intended shift, one of the leading businessmen in Turkey, Cem Boyner, in planning to enter the banking sector, was clearly stating the reasons behind banks' targeting consumer finance:

> We immediately seek to develop consumer finance business with the bank that we will purchase. As the Treasury's borrowing requirement lessens, inflation, interest rates and Treasury yields decrease, bankers have to return to real banking. That is why they spend a great effort to enter the consumer finance. ("Boyner Advantage'in", 2001)

Banks not only planned to cope with the decline in revenues from financing public deficit by extending consumer banking, but also by finding new ways of rising noninterest income. Engin Akçakoca, the general director of Kocbank, stated how banks could compensate for the decline in their revenue.

> Until now, there were not any charges on credit cards, we [banks] did not charge any fees, but now we have to do this. We might charge a service fee on money transfers, and we will start to charge a commission on fees on EFT [Electronic Fund Transfer]. In the past, the state was replacing customers who benefited from paying no fees. Now all charges will be paid [by customers]. In other words, we will earn money from doing banking. (Dünya, 21 June 2000, as cited in Gültekin-Karakas, 2009, p. 120)

Pronouncements by the bank managers signalled the direction of change in banking sector activities. However, the shift was expected to be eventually returning to traditional banking sector activities, meaning an increase in the intermediation between banks and corporations. In Turkey, throughout the 1990s, the state was accused of mismanaging its public deficit management policy by using the banking sector. There was a common consensus that this was the major constraint in bank lending in Turkey (see, for instance, Aydın et al., 2006); the main reason behind the low share of bank loans to corporate sector liabilities was seen as the result of the banks heavy involvement in domestic debt financing by holding government debt instruments. The expectation arising from this consensus was that once the disinflation policy became effective, banks would return to traditional lending practices. However, as discussed in Chapter 4, the banks turned consumer lending instead.

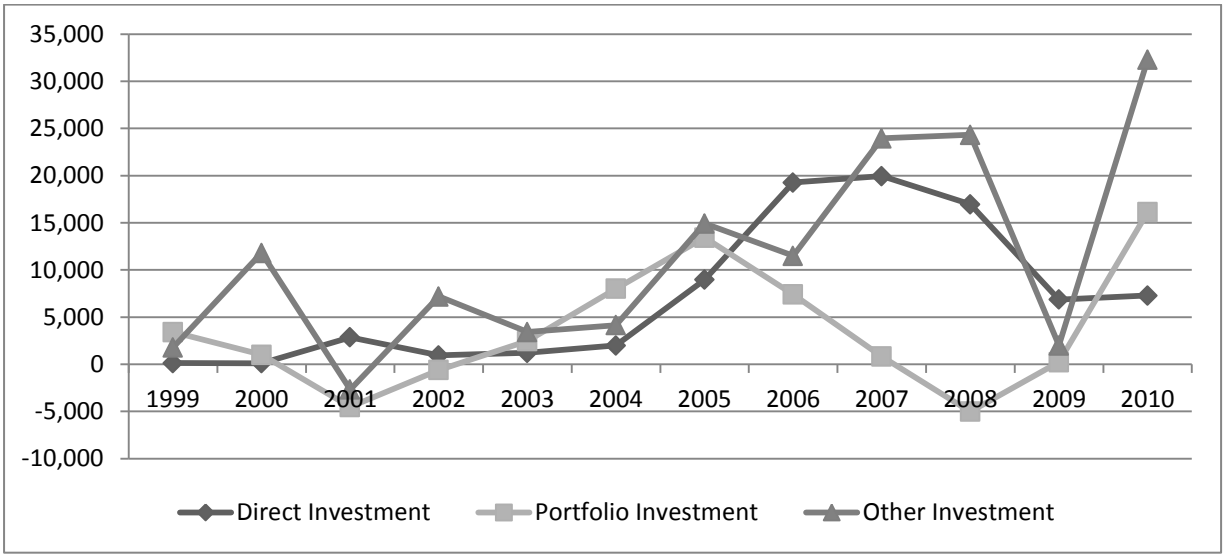
To sum up, the disinflation policy and the decline in revenues (from financing the public deficit) have been important factors behind the diversification of banking sector activities post-2001. Analysing the new strategies of the banking sector necessitates considering other developments in the economy. There are two important considerations here. One is the corporations' increased access to foreign funding opportunities in the postcrisis period, and the other is the massive foreign bank entry into the Turkish financial sector, particularly after 2004. Both are important aspects of Turkey's economic integration into the world economy in the post-2001 crisis period.

5.3.3 Increased Access to Foreign Funding Opportunities

Apart from the direct impact of declining revenues from financing the public deficit, the policy framework of the era also affected the banking sector as corporations found increased borrowing opportunities from international credit markets.

Between 2002 and 2007, developing countries in general experienced a remarkable rise in capital flows fostered by the financial expansion in Anglo-American economies.[104] Turkey was no exception to this trend. In the post-2001 crisis period, the economy witnessed a remarkable surge in capital flows; that is, until the global financial crisis of 2007–2008. A recent wave of inflows was seen in again 2009 and 2010 (see Figure 5.9).

Figure 5.9: Net Capital Flows in Turkey ($US Millions)



Source: The Undersecretariat of Treasury

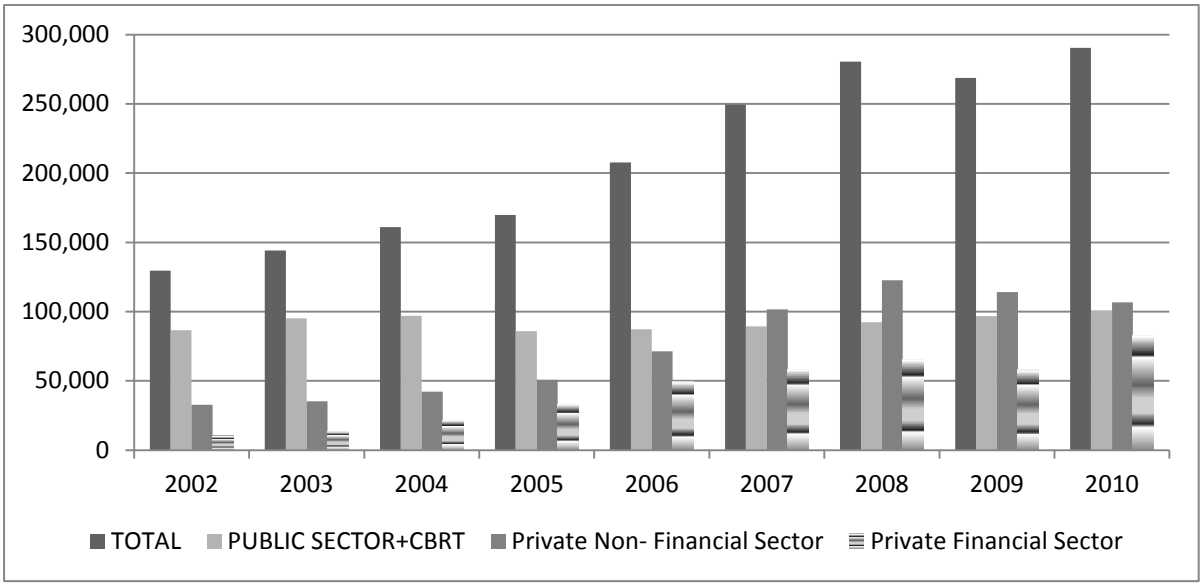
Two important features of the capital flows to Turkey in this period were the predominance of external borrowing by the private sector and FDI. Both have important implications for the transformation of traditional banking sector activities in the post-2001 crisis period, as will be discussed subsequently.

Accumulation of foreign debt has been a major characteristic of Turkey's integration into the world economy in the post-crisis period and has become a primary mode of financing the current account deficit (Yeldan, 2007), with private sector borrowing constituting the major portion of this debt. As elaborated in the previous section, despite the declining trend, domestic interest rates remained high in Turkey throughout the 2000s. Furthermore, appreciation of the Turkish Lira reduced the borrowing costs in foreign currency. Consequently, large firms with access to international markets preferred to borrow from abroad. A glance at Turkey's balance of payments reveals that Turkish external debt stock

[104] For a detailed discussion on the upsurge in capital flows to developing countries in the 2000s in relation to the global imbalances in the world economy, see Vasuden (2009a) and Boratav (2009).

increased drastically in the post-2001 crisis era (see Figure 5.10). The significant increase in the private sector's external debt has played an important role in this.

Figure 5.10: External Debt of Turkey by Borrower, ($US Millions)

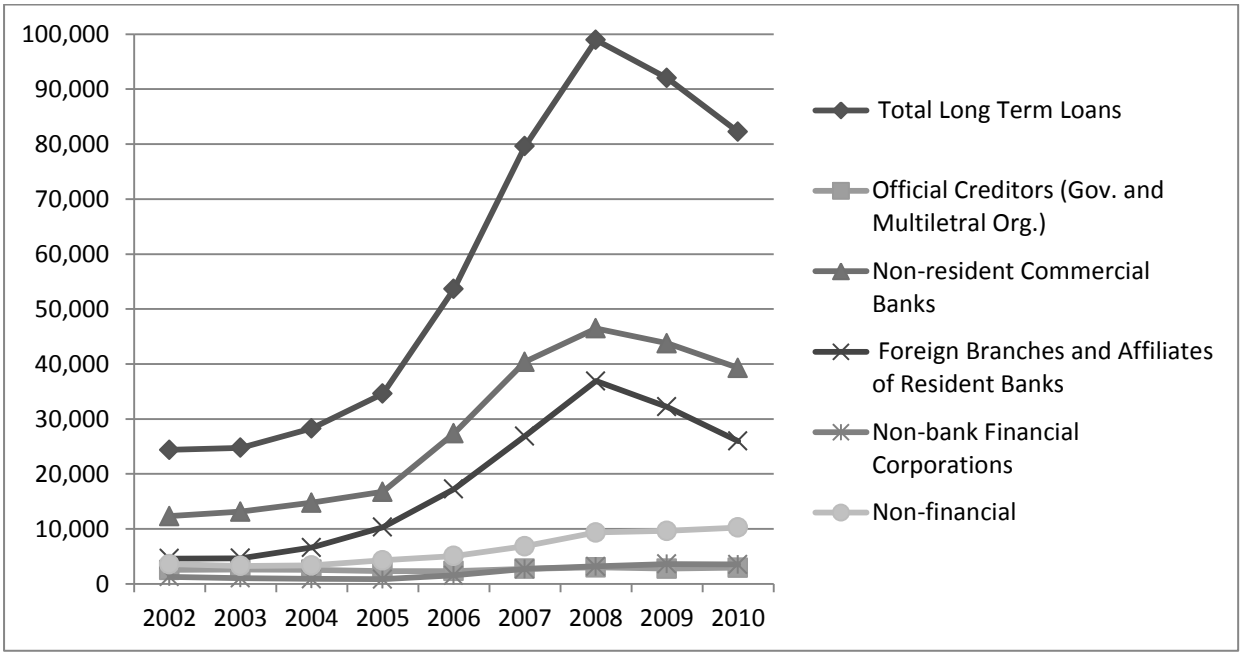


Source: CBRT

Between 2002 and 2008, Turkey's external debt more than doubled (from more than $US 129.5 billion to $US 290.3 billion). The private sector's long-term borrowing was responsible for nearly 75% of this increase, indicating this was one way in which Turkey reaped the benefits of the abundance of global liquidity. The majority of these loans were received by nonfinancial corporations. This phenomenon can be generalized for many other developing countries, too, as was discussed in Chapter 3. Lower international interest rates, along with excess global liquidity, reduced the cost of external financing for developing country corporations. As a result, they borrowed vast sums of money from international markets. According to a World Bank report, in the 2000s, developing country firms mainly borrowed from global corporate bond markets, in particular from Eurobond and U.S. dollar bond markets (World Bank, 2007). However, this was not the case for Turkey. The major sources of funds borrowed by Turkish corporations were from foreign banks or foreign branches and subsidiaries of domestic banks (see Figure 5.11).[105]

[105] Turkey's first international bond issue by a nonfinancial company was in 2010. Turkish construction company, Yüksel Insaat, issued 5-year Eurobonds worth $US 200 million ("Yüksel Inşaat'tan", 2010).

Figure 5.11: Outstanding Long-term Loans Received From Abroad by Nonfinancial Institutions in Turkey ($US Millions)



Source: CBRT

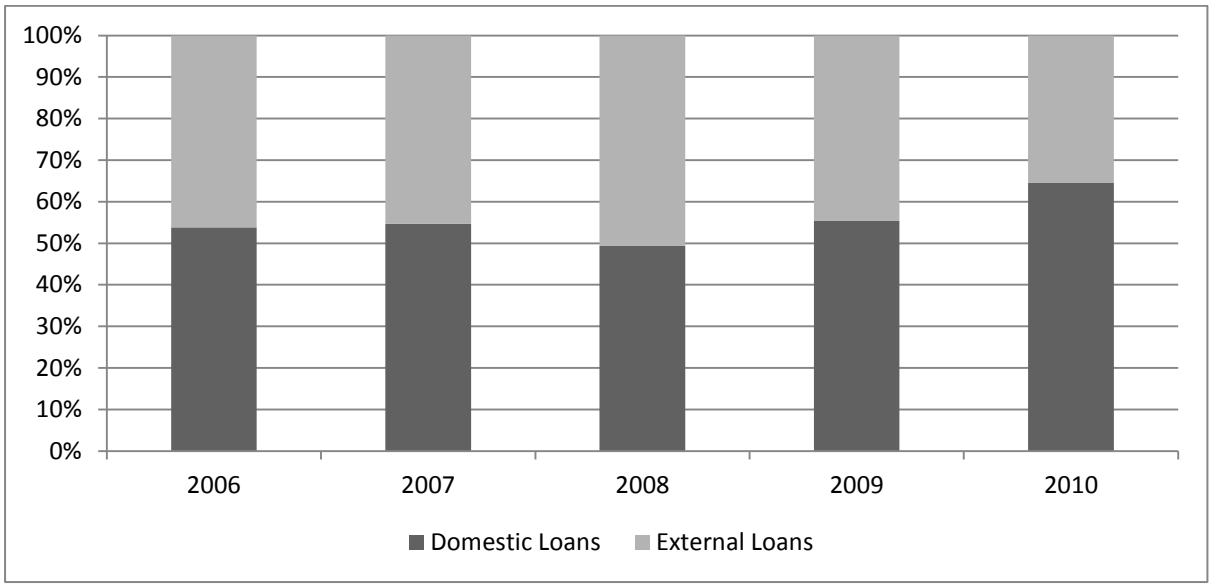
Almost all domestic banks in Turkey established a subsidiary bank in Europe; Netherlands being one of the most favourable locations (Steinherr et al., 2004). The share of funds obtained from foreign branches and affiliates of Turkey's banks comprised 33% of the total loans that nonfinancial corporations obtained from abroad, while the share of funds received from foreign banks constituted 51% of the these loans between 2002 and 2010. The main reason for this sector's heavy borrowing from foreign branches of domestic banks and foreign banks is that the various fees and taxes on financial intermediation in Turkey raised the cost of domestic borrowing.[106]

One of the major consequences of this remarkable increase in corporate borrowing from abroad was its effect on the relationship between domestic banks and corporations in Turkey. Favourable borrowing conditions abroad created alternative ways of financing corporate projects in Turkey leading to a reduction in their reliance on domestic financial institutions (Ersel & Özatay, 2008). This, in turn, contributed to the banks' needs to find alternative activities to earn profits. Figure 5.12 shows shares of domestic and external loans

[106] Kaya and Doğan (2005) estimated the cost of various fees and taxes on financial intermediations, concluding that these obligations raised the cost of TL credit by 26.4%, as of 2005. The high financial intermediation cost had two major implications in Turkey. One, high costs led nonfinancial firms to borrow from abroad; two, it led banks to shift their activities abroad (Steinherr et al., 2004).

in the corporate sector total borrowings for the years between 2006 and 2010.[107] The high share of external debt to total corporate debt is very much related to global conditions. External loans soared prior to the global turmoil in 2008 but entered a downward trend afterwards. During that time, the major concern regarding corporate sector debt had been the high share of FX denominated debt. As of February 2011, 59% of the corporate sector's financial debt was in foreign currency.

Figure 5.12: Composition of Financial Debt of Corporate Sector (%)



Source: CBRT and BRSA

Having said that, while there was increasing interest in borrowing from abroad, the financing behaviour of Turkey's corporations did not change much as a turn away from bank loans to open market securities, as happened in developed countries. Indeed, the corporate bond market has not been much developed in Turkey, and the securities market has been mainly dominated by government securities. Between 2000 and 2010, on average, 87% of the outstanding securities were government securities (CMBT, 2010). The crowding-out of corporate bonds by government securities and availability of alternative financing sources are two of the major reasons behind the underdevelopment of Turkey's corporate bond market.

The private sector, as a matter of fact, has been able to issue bonds in Turkey since 1986. The primary market for these bonds was active in the late 1980s and early 1990s.

[107] The shares could not be estimated for the years before 2006, as the BRSA only started to release loans to small and medium enterprises (SMEs) in December 2006. Therefore, it is not possible to break out the SME commercial loans from corporate sector loans before 2006.

However, following the increase in government bond issues to finance the fiscal deficit, the issuance of corporate bonds by the private firms declined, and they did not issue any corporate bonds between 1999 and 2005. In 2006, issuance of private sector debt instruments started to gain momentum again, and 2010 saw a remarkable growth in the corporate bond market due to low levels of benchmark interest rates and reductions in the issuance costs (see Table 5.7). Even though there has been an increase in issuances, the corporate bond market is still underdeveloped in Turkey. This is in contrast to the experiences of many other developing countries in East Asian (such as Hong Kong, South Korea, Malaysia) and in Latin America, (for example, Mexico) where corporate bond issuance has become an important source of funding (Mohanty et al., 2006).

Table 5.7: Private Sector Debt Instruments in Turkey

	2006	2007	2008	2009	2010
Issues (US$ million)	101	345	190	289	3707
# of Corporate Bonds	2	2	2	5	23
# of Commercial Papers	0	4	1	1	2
# of Bank Bills	0	0	0	2	10

Source: CMBT

The most comprehensive data set concerning the liability structure of the corporate sector in Turkey comes from Company Accounts, published by the Central Bank. Table 5.8 shows the major components of the manufacturing firms' liabilities in Turkey, adapted from these reports.[108]

[108] The total number of firms available in the data set is approximately 8,000. The Central Bank collects this data set annually by asking thousands of companies to report their balance sheets for the last three years. Any firm whose data for the last three years is not available is kept out of the analysis. The size classification is based on the total asset criterion. For 2010, for instance, companies with an asset size less than EUR 10 million were grouped as small, between EUR 10–43 million as medium, and more than EUR 43 million as large companies.

Table 5.8: Liability Structure of the Manufacturing Sector, by %

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Manufacturing All Companies												
Bank Loans	26.2	24.6	28.4	24.3	20.9	17.0	17.6	19.4	18.7	25.4	23.0	24.6
Trade Credit	19.0	18.6	19.1	19.6	18.5	15.9	15.9	15.9	15.2	14.5	14.3	15.2
Bonds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.00	0.00	0.04
Equity	35.2	37.0	31.1	37.1	43.7	52.7	51.8	50.6	51.7	44.3	47.0	44.5
Number of Observation	3658	3658	3658	3398	3398	3398	3761	3761	3761	3404	3404	3404
Manufacturing Large Companies												
Bank Loans	24.3	22.2	26.8	23.8	19.5	15.8	16.1	18.0	17.1	25.3	22.1	23.5
Trade Credit	18.2	17.8	18.8	19.7	18.6	16.0	15.3	15.3	14.9	14.0	14.2	15.2
Bonds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.00	0.00	0.04
Equity	37.4	40.1	34.1	36.9	44.4	53.4	53.9	53.0	53.9	45.9	48.2	45.8
Number of Observation	326	326	326	371	371	371	535	535	535	561	561	561
Manufacturing Medium Companies												
Bank Loans	29.8	29.3	32.8	24.7	23.0	19.4	21.8	23.6	23.5	26.5	26.6	27.7
Trade Credit	20.0	19.5	19.4	19.9	18.2	16.0	17.2	17.3	15.6	16.5	15.0	15.7
Bonds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Equity	33.6	33.8	27.8	39.1	44.1	51.5	47.4	44.9	46.4	39.8	43.0	40.7
Number of Observation	997	997	997	1139	1139	1139	1212	1212	1212	1294	1294	1294
Manufacturing Small Companies												
Bank Loans	28.0	26.8	28.5	27.5	25.1	19.3	21.2	22.6	22.4	23.6	22.9	25.1
Trade Credit	20.3	20.7	20.0	18.4	17.8	13.9	18.1	17.6	16.7	15.2	14.4	14.2
Bonds	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Equity	26.7	26.1	20.5	33.5	37.4	51.3	43.6	42.9	44.1	39.7	40.1	38.2
Number of Observation	2335	2335	2335	1888	1888	1888	2104	2104	2104	1549	1549	1549

Source: CBRT Company Accounts

Note: The data for 2004 is based on inflation adjusted financial statements.

As can be seen from Table 5.8, equities and bank loans are the two main sources of finance for Turkish manufacturing companies. Bank loans constitute 22.5%, on average, of the total manufacturing sector liabilities between 1999 and 2010. Although bank loans are an important source of corporate financing in Turkey, their share in total liabilities appears to be low in comparison to typical bank-based economies, such as Germany's, where the ratio is above 50% (Aydin et. al., 2006). A striking feature of corporate financing in Turkey is the high share of trade credits, obtained from subsidiaries. This not only indicates the relative underdevelopment of the financial intermediation in Turkey, but also the importance of institutional and social relationships in shaping the credit mechanism of a country.

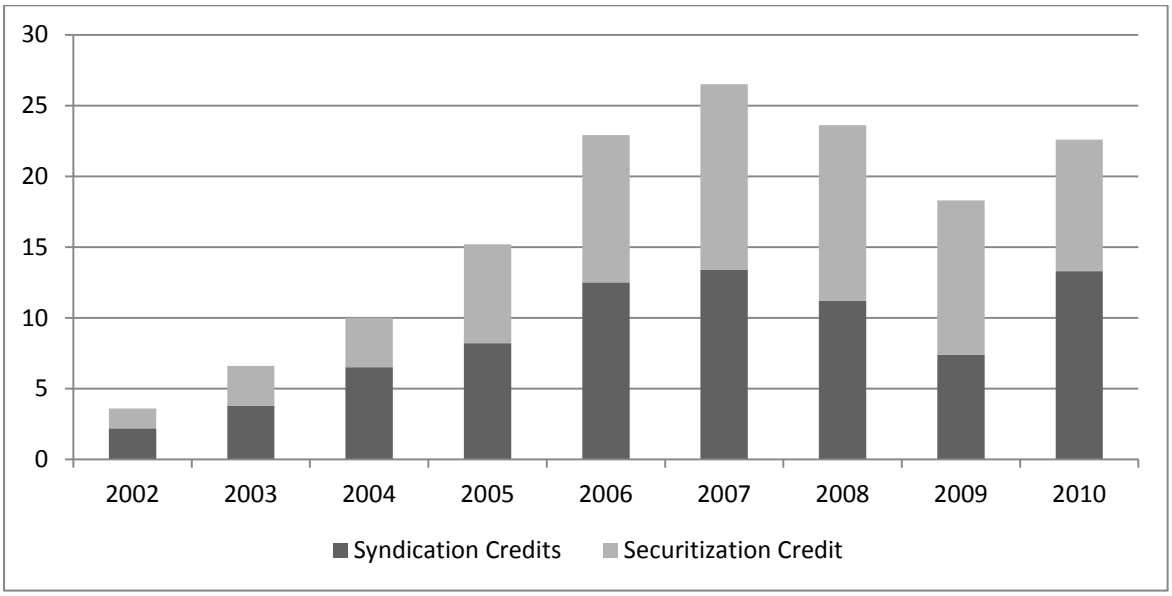
Table 5.8 also reveals that there has not been a major change in corporate financing in Turkey over the last decade, though there were major declines in equities and increases in

external funds during the 2001 and 2008 crises. Comparing companies according size, it is clear that large firms rely more on equity and less on bank loans and trade credits relative to small firms. As an expected outcome of the underdevelopment of the corporate bond market, corporate bond issuance still does not play an important role in the financing of manufacturing firms. The table reveals some years of (very small) positive numbers, but only for large companies.

A further important factor to consider in relation to capital flows is the increased external borrowing of the banking sector. This created extra sources of funding for credit expansion. Compared to developed countries, loans are mainly funded by deposits in Turkey. Despite the decline in their share in total liabilities, from 67% in 2002 to 63.5% in 2009 (BAT 2010b), deposits are the primary source of funding. Nevertheless, increased funding opportunities from abroad have become an important financial source that has contributed to the rapid growth of credit in recent years.

Until 2003, the use of syndication and securitisation loans from abroad was limited, though favourable global conditions provided increased access to these loans. In this context, 2004 can be regarded as a turning point, as the share of syndication loans increased from 2.5% to 3.3% in total liabilities in one year, according to the BRSA statistics. There was also a rapid increase in securitisation loans between 2003 and 2007 (see Figure 5.13). In 2008 and 2009, as the borrowing conditions from the international markets deteriorated, the amount of resources secured through syndication and securitisation loans decreased, but with the financial markets' recovery in 2010, syndication and securitisation credits increased once again, reaching $22.6 billion.

Figure 5.13: Syndication and Securitisation Loans ($US Billion)



Source: BRSA

In sum, international borrowing, in the form of syndication and securitisation credits, became an important source of funding for banks in Turkey starting in 2004. Since then, there has also been a marked and rapid expansion of consumer credit. Hence, it can be argued that the rise in funds from abroad contributed to the boom in Turkey's consumer credit growth.

5.3.4 Foreign Bank Entry

As already discussed, along with the corporate sector's external borrowing, the post-2001 crisis era was also marked by a significant increase in the foreign direct investment (FDI).[109] Foreign investor presence in the business coalition was strongly encouraged compared to the previous policy phases (Öniş & Şenses, 2007). FDI was regarded as an important tool that would allow the further integration of the Turkish economy into the world economy and act as a channel for upgrading technology.

Within the scope of this paper, the most important aspect of the FDI after the post-2001 crisis is the concentration of it in the financial sector. The totals on the sectors that attracted rapid increases in FDI are in Table 5.9. The financial sector attracted the highest volume of FDI in the post-2001 crisis period, receiving 11,409 million dollars of FDI in 2007, which constituted 59.5% of the total FDI that entered the economy in that year.

[109] In 2005, Turkey climbed to 22nd place among countries attracting FDI, up from the 53rd place in 2003 and 37th place in 2004 (YASED, 2007).

Table 5.9: FDI Inflows in Top 5 Sectors between 2002 and 2007 ($US Million)

Sectors	2002	2003	2004	2005	2006	2007
1. Financial Intermediation	260	51	69	4,018	6,956	11,409
2. Transport, Storage and Communications	1	2	639	3,285	6,700	1,119
3. Chemicals and Chemical Products	9	9	39	174	602	1103
4. Real Estate, Renting and Business Activities	0	6	3	29	99	905
5. Manufacture of other Non-metallic Mineral Products	0	0	1	53	125	766
Other	352	677	540	979	3,163	3,888
Total	622	745	1,291	8,538	17,645	19,190

Source: The Undersecretariat of Treasury (2008).

Within the financial sector, the banking subsector has been the major recipient of FDI, mainly in the form of mergers and acquisitions. Table 5.10 shows the fixed capital investment into the Turkish Banking Sector, November 2004 and June 2007, in detail. According to BAT statistics, the percentage of foreign bank assets among total banks assets increased from 2.8% in 2003 to 14.1% in 2010, and their share of total loans and receivables rose from 4% to 16% over the same period. It is important to insert a caveat here that although there was a rapid increase of foreign banks entering the Turkish banking sector, foreign banks' assets in relation to Turkish banks remain moderate in comparison to many other developing countries.[110]

[110] For instance, by 2009, in Latin America, foreign bank assets accounted for 36% of total bank assets, on average, while it was more than 60% in Central and Eastern European countries (Mihaljek, 2010).

Table 5.10: Foreign Bank Entering the Banking Sector

Bank Sold	Purchaser	Country of Purchaser	Date of Transaction	Share (%)
Demirbank	HSBC	United Kingdom	2001	100
Kocbank	Unicredito	Italy	2002	49.5
TEB	BNP Paribas	France	2004	42.1
Dışbank	Fortis	Belgium–Luxemburg	2005	89.3
Yapı Kredi	Koc Unicredito	Italy–Turkey	2005	57.4
Garanti	General Electiric	France–United States	2005	25.5
Finansbank	NBG	Greece	2006	46
C Kredi Kalkınma	Bank Hapolim	Israel	2006	57.6
Denizbank	Dexia	France–Belgium	2006	75
Tat Yatırım Bank	Merrill Lynch	United States	2006	99.95
Akbank	Citigroup	United States	2006	20
Sekerbank	Bank Turanalem	Kazakhistan	2006	33.98
MNG Bank	Arap Bank	Jordan–Lebanon	2006	91
Tekfenbank	EFG Eurobank	Greece	2007	70
Oyakbank	ING Bank	Holland	2007	100

Source: BRSA (2006).

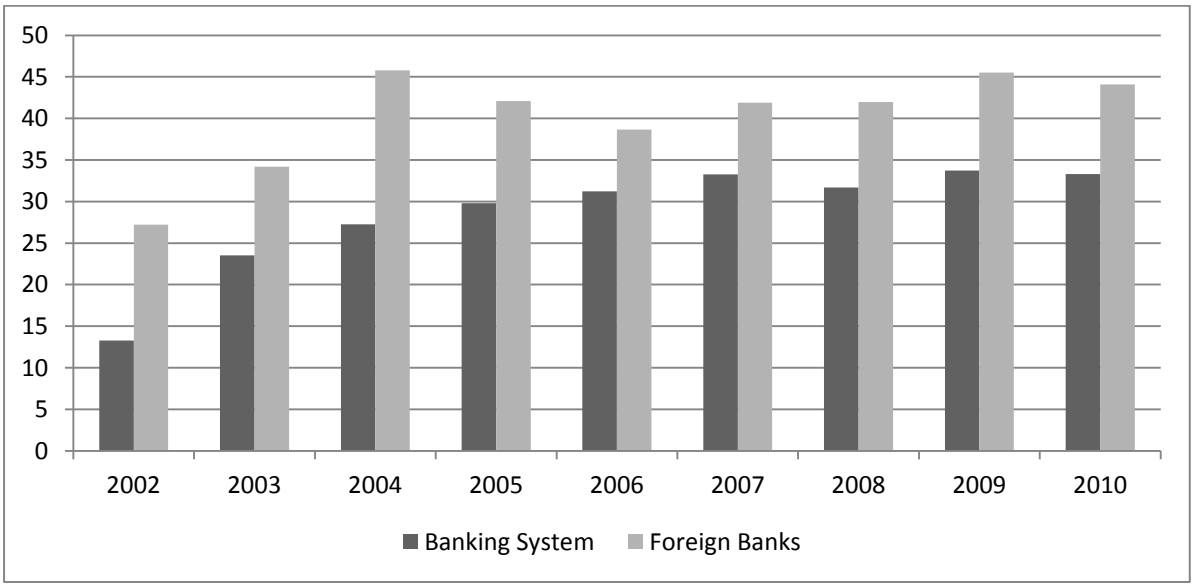
With recent increases in foreign bank presence in Turkey, there has been an increasing amount of literature on causes and consequences of foreign bank entry into the country. Relaxation of restrictions on the foreign bank entry, improvements in macroeconomic stability, and high growth potential are highlighted as major reasons for foreign banks looking to move into Turkey (Aysan & Ceyhan, 2008). Some of the effects that foreign banks had on the Turkish banking system are mentioned as that they expanded product variety, increased competition, transferred know-how, and strengthened domestic

banks' move towards lending to households (see, for instance, Çakar, 2003). What is of particular importance in the context of this study is this final point.

Both the increase in consumer loans and the foreign bank entry into the Turkish market gained momentum after 2004 (BAT, 2008). This can be seen as an indicator of the positive correlation between the two events. With foreign banks already being specialized in lending to households in their home countries, they were motivated to take advantage of Turkey's rapidly growing consumer credit markets as well. Foreign banks rapidly expanded their consumer-banking services, and, concerned they might fall behind, domestic banks began to also increase their consumer-banking activities.

As seen in Figure 5.14, the foreign banks' ratio of consumer loans to total loans was higher than in the total banking sector between 2002 and 2010. NBG, HSBC, Citibank were among those banks which pursued an aggressive strategy to take part in the growing Turkish credit market by purchasing domestic banks. For instance, the share of consumer loans to total loans of Finansbank (NBG) and HSBC was above 60% and 50%, respectively, by the end of 2010 (BAT, 2010c).

Figure 5.14: Consumer Loans in Total Loans (%)



Source: BAT

5.4 Conclusion

Studies on the reasons behind the rise in consumer credit most often focus on financial sector developments to understand the phenomenon. This dissertation argues that while examining the developments in the banking sector in the post-2001 crisis era gives

valuable insights into an understanding of the reasons behind the increased supply of credit, an accurate understanding of the subject can only be provided by accounting for broader structural developments in Turkey's economy. It is in this framework that this chapter gives an analysis of the major transformations in real and financial sectors of the economy.

The post-2001 crisis period has been characterised by Turkey's greater integration into the world economy. Turkey experienced a transformation in its trade and production structure toward medium- and high-tech products during this period. Reductions in labour costs and deregulation of labour markets were important determinants for Turkey's increased competitiveness in the world markets. One of the arguments of this study is that the rise in household debt in Turkey must be analysed against the background of the developments in the labour market: a rise in unemployment, stagnating real wages, and new types of low-paid and insecure jobs. The chapter also draws attention to the importance of considering the effects of the privatisation of services provided by public sector on the financial backs of workers in Turkey. All these factors contributed to the rise in demand for consumer credit and increased the vulnerability of wage earners to debt in an age when consumption was increasingly promoted through various mechanisms. The analysis of extending consumer loans particularly to low-income wage earners, given in Chapter 1, supports this argument.

On the supply side, there are four main factors that affected the banking sector and increased their desire to include consumer credit as one of their services. First, the banking sector went through major reformation and restructuring in the aftermath of the 2001 economic crisis. The process led to a breakdown of the holding structure of the banking sector, increased the concentration ratio, and created conditions for foreign bank entry. In this new environment, banks started to search for alternate ways of making a profit. Second, prior to the crisis, financing the public deficit and providing loans to firms were the major banking activities in Turkey. However, fiscal and monetary policies implemented in the postcrisis period reduced banks' opportunities to make a profit from financing the public deficit. Third, the increased access to international credit markets reduced the reliance of Turkish corporations on domestic banking. Further, increased borrowing by banks from international markets created an alternative source of funds for them to finance credit expansion. The fourth factor is that a growing foreign bank presence stimulated domestic banks' interest in consumer banking because, as mentioned above, foreign banks were already specialised in consumer banking and wanted to benefit from similar banking opportunities in host countries. Domestic banks soon followed along the same path. Driven by all these factors, banking sector activities have increasingly moved to include consumer credit as a service, which has

created the conditions for the financialisation of household income. While financialisation has provided individuals with greater access to consumer loans, credit cards, and financial services, the process resulted in a remarkable growth in household debt.

The rest of this study elaborates on the causes and consequences of the rise in consumer debt, particularly for workers in Turkey, and discusses the findings from the fieldwork amongst metal workers. However, before turning to the fieldwork results, Chapter 6 discusses the methodological approach used in undertaking the fieldwork.

Chapter 6: Methodological Framework for the Empirical Analysis

A discussion of the methodological approach of this dissertation is crucial as it provides a foundation for the theoretical framework. A choice of methodology depends on the nature of the research objectives, and it is useful to now restate the objectives of this research. The objectives include 1) revealing how and why workers have gone into debt, and 2) identifying how capital labour relations are affected by and affect workers' indebtedness. To investigate these questions, I adopted a combination of qualitative and quantitative methods because using mixed methods allowed for an in-depth understanding of the subject of inquiry.

The purpose of this chapter is to describe the methodological framework and methods used in undertaking this research. This chapter highlights the main debates on methodology in the literature and discusses how different methodologies are used by economists. In this context, it starts with a review of two broad methodological positions generally mentioned in the literature, namely, positivism and interpretivism. These two methodologies are often discussed in relation to quantitative and qualitative methods, respectively. Based on criticisms of these two positions in relation to their ontological, epistemological, and methodological stances, this chapter discusses the appropriateness of using mixed methods. In doing so, it takes neither a positivist nor an interpretivist approach, but puts forward a Marxist approach of dialectical materialism as the congruent paradigm in this research. In addition, this chapter also presents the specific methods employed in the fieldwork, namely, questionnaires and life stories.[111] This is followed by an overview of the data collection, data sampling, and data analysis processes in relation to each method. The chapter concludes with a discussion of the limitations of the research.

6.1 Different Methodological Positions Regarding Quantitative and Qualitative Methods: Positivism and Interpretivism

As a starting point, it is useful to distinguish what is meant by method and by methodology. A method refers to a specific technique used for gathering data and evidence. Typically, quantitative method refers to utilisation of a standardised set of questions with a large sample, generating data which can be expressed numerically. Common methods within

[111] This chapter focuses on the primary data collecting methods. However, secondary data is also used widely in this dissertation, especially in Chapters 7 and 8. Secondary data allowed greater coverage of the area of research, improved the understanding of the problem, found the gaps and deficiencies, and determined the additional data needs to be collected. In this sense, it helped with the formulation of the primary data collection.

quantitative research include questionnaires, structured interviews, and statistical analyses. The qualitative approach adopts a less structured set of questions with a purposive small sample to analyse the underlying meaning of a phenomenon, and it generates textual and observational data (Elliot, 2005). It prioritises "value subjective, personal meaning and definition, commonalities and giving voices to the oppressed" (Brayton, 1997). Qualitative research methods involve interviews, participant observation, focus groups, and other such work.

Methodology is a combination of techniques, practices, and interpretations (Olsen & Morgan, 2005). Methodologies are essentially concerned with the philosophical assumptions that underlie a particular research, and it is often claimed that certain methods are used in the framework of certain methodologies. Traditionally, qualitative and quantitative methods are perceived as two distinct paradigms through which the social world can be understood. It has become very common for a quantitative method to be described as belonging to the positivist methodology and a qualitative method as belonging to the interpretive methodology.

In this regard, there are several objections or critical approaches to using a combination of quantitative and qualitative methods in research. Based on the idea that quantitative and qualitative approaches have incompatible epistemological views regarding how they conceptualize knowledge and have conflicting ontological positions regarding the nature of reality, it is often argued that they cannot be combined to generate an accurate understanding of a phenomenon.[112]

The argument of this study is that the distinction between quantitative and qualitative methods, based upon their distinct epistemological stances, is overly simplistic. Following Olsen (2004), this study rejects the idea that a quantitative method is underlain by an epistemology where the empirical facts are thought to be speaking for themselves. It is critical to use qualitative methods to construct theories out of what has been said by the objects of inquiry. Qualitative and quantitative methods can each be employed in research by considering the complexity of the social reality and acknowledging the necessity of undertaking social and structural analyses in examining the data gathered. It should also be noted that in this study the purpose in using mixed methods is not to validate the findings from a single method but to deepen one's understanding of an object of inquiry. The rest of this section explores the issue by giving a critical account of both positivism and

[112] See, for instance, Guba and Lincoln (1989) for a discussion on the incompatibility of the assumptions that underpin quantitative and qualitative methods.

interpretivism. Section 6.2 then presents that dialectical materialism is the accurate approach when employing mixed methods.

Positivism, as an epistemological stance, argues that all true knowledge is scientific knowledge and can be measured. The research is "constructed in terms of testing theories and make predictions in an objective, value free way where the researcher is detached from both the participants and the research process" (Brayton, 1997, n.p.). In this regard, the researcher should set aside any preconceptions in order to put forward objective facts built on empirical observation (McEvoy & Richards, 2006). Hence, it implies that there is an objective reality and that the observer should undertake a value-free inquiry in order to capture it. In positivism, it is essential that the observer remains distant and does not interact with the observation.

Positivism is very influential in economics. Mainstream economics has its roots in positivist methodology, and it accepts empirical testing as the dominant strategy for economic analysis. In this sense, there is a strong emphasis on mathematical models and deduction[113] in mainstream economics. As discussed critically in Chapter 2, it is mainstream economics' commitment to methodological individualism which allows for the application of mathematical methods by expressing different economic dynamics in terms of mathematical formulations. This is done via aggregating rational choices of representative agents in an economy, assuming that every agent has the same opportunities in making decisions.

The other main approach in the methodology literature, interpretivism, is generally associated with qualitative methods. In contrast to positivism, here the social reality is understood from within, not explained from out (Elliot, 2005). This paradigm puts an intense emphasis on the relation between the object of the research and the researcher, arguing that reality is a subjective process which requires an observer's construction. Hence, its ontological position can be described as constructionist, implying that reality is perceived as an outcome of interactions between individuals rather than a phenomena out there waiting for the researcher to observe it. There are multiple possible realities based on each observer's construction of the reality. So, indeed, there is no reality independent from the observer. Researchers can only grasp the subjective meaning of social outcomes. Since the aim is to see the world from the viewpoint of the objects of the study, in undertaking any study, the researcher should avoid imposing his or her theoretical framework (Wainwright, 1997).

[113] Deduction refers to the process where one starts with general laws and assumptions and confirms or refutes the hypothesis using empirical observations.

Interpretivism, as an epistemological stance, has been much less influential in economics in comparison to other social sciences (Downward & Mearman, 2007). As Lavoie (1990, p.1) argues, it is fair to say that economists are not very familiar with a hermeneutic, interpretive philosophy which "is essentially a philosophy of understanding which elucidates how is that one person comes to understanding the actions or the words, or any other meaningful product, of any other". The avoidance of interpretivism among economists is mainly related to their reliance on empirical testing and mathematical formulation as the requirements of a positive science.

This study employs both qualitative and quantitative methods, and, in doing so, it pursues neither a positivist nor an interpretivist methodology. It criticises positivism because it rejects the idea of the necessity of placing a distance between object or subject for the sake of neutrality. It also refutes the conceptualisation of knowledge in a positivist paradigm as a phenomenon that can be easily captured and generalized. The relations between different elements of a social system are complex and they cannot be dealt with in isolation from each other; therefore, they should not be treated as though they are isolated from external influences in a closed system. Instead, in analysing a social phenomenon, "the interactions between mechanisms and the context in which they occur" should be taken into account (McEvoy & Richards, 2006).

This study is also critical of interpretivism, as it disagrees with the idea that all true knowledge can be learned from the objects of inquiry. It argues that qualitative methods should be employed not to identify the experiences of the objects — the participants — but to unravel their social structures and the relations underlying their actions (McEvoy & Richards, 2006). It is crucial to situate the things learned from the objects of study within a broader historical and structural analysis (Wainwright, 1997).

This dissertation's empirical analysis is built on an alternative methodological approach, drawing insights from Marxist dialectical materialism. This approach is not attached to a single method but rather acknowledges the benefits of combining different methods depending on the nature of the research question. In what follows, the Marxist dialectic materialism approach underpinning this research is presented, as well as a discussion on the appropriateness of using mixed methods in this framework.

6.2 Methodology of Dialectical Materialism

In Marxist dialectical materialism, a social phenomenon is treated as a part of a totality, as a product of whole social and economic relations. The analysis focuses on any relational part as a starting point for reconstructing the interconnections of the totality, elements of which emerge, cohere, and develop over time (Ollman, 2003). This study, in analysing consumer credit, is built on this framework. The developments in the realm of consumer credit are interpreted with reference to broader capitalist relations and historical circumstances of the country under consideration; in this case, Turkey.

Application of dialectic logic is key to the Marxist analysis, as it attempts to deal with changes and relations regarding a phenomenon. Dialectics can be characterized as "a way of thinking that brings into focus the full range of changes and interactions that occur in the world" (Ollman, 2003, p.12). Ollman (2003) distinguished between dialectic and nondialectic research as follows:

> [Nondialectical research] starts with some small part and through establishing its connections, tries to reconstruct the larger whole…. [whereas dialectical research] begins with the whole, the system, or as much of it as one understands, and then proceeds to an examination of the part to see where it fits and how it functions, leading eventually to a fuller understanding of the whole from which one has begun. (p. 14)

A detailed analysis of dialectic logic is beyond the scope of this study. This section, rather, identifies the methodological consequences of applying the dialectic logic to research. The first element in this regard is to analyse a phenomenon over time to reveal its changes during the process of its historical development and also to identify its historical specificity (Waingwright, 1997). The second element is to deconstruct categories in order to capture changes and interactions related to a phenomenon (Ollman, 2003). This enables a research to see a single phenomenon as a part of a whole network of social and economic relations.

Undertaking such a dialectical research necessitates applying the method of abstraction. The method of abstraction in Marxist analysis is different from a simple abstraction, which "investigates contingent and external relations among different objects" (Roberts, 1999, p. 29). Max Weber's attempt to build a link between the Protestant ethic and the development of capitalism would be an example of simple abstraction (Roberts, 1999).

Mainstream economists also utilise it when they abstract a phenomena out of the whole economic system and examine it as static. This is the case, for instance, when economists treat capital as a material accumulation without dealing with the production process, capital-labour relations, and other related issues.

In contrast, "creating an objective concrete abstraction" of a phenomenon implies "considering a quite particular recurring fact with respect to its own immanent content, it means considering 'in itself', as the familiar phrase has it" (Ilyenkov, 2008, p. 102). The goal of abstraction is to isolate certain aspects of social reality in order to investigate them in depth. This paves the way to build them over time and to gain an accurate understanding of the concrete reality. For a meaningful abstraction, it is necessary to replace the concept of "thing" with the concepts of "process" and "relation" (Ollman, 2003), and hence to analyse a phenomenon within broader social relations by considering its historical development.

The key to undertaking such a dialectic inquiry into the nature of a social phenomenon is to have an accurate understanding of knowledge acquisition, which has to be concerned with the study of social objects and the production relations they enter into. This is connected to the materialist view of the relation between subject and object in the Marxist methodology. Marx synthesised the materialist basis of consciousness designated by Feuerbach with the dialectical notion of Hegel.

> For Marx, consciousness came from the individual's experience of the real world, but this experience was one of practical activity, of conscious intervention to adapt nature to meet human needs…. The human head is not seen as a purely physical entity, but as a social head, full of socially constructed information on how to understand and act in the world, for example, language, concepts and categories. The focus on conscious human activity (production in its broadest sense), essential to the materialist conception of dialectics, re-introduces Hegel's problematic, but sets it on a materialist footing — effectively turning Hegel on his head, as Marx put it. The problem resides in the gap between socially constructed phenomena, as they exist in the real world, and the equally socially constructed representations of those phenomena in the consciousness of the individual (Wainwright, 1997, n.p.)

What needs to be considered in this line of reasoning is the continual evolution of phenomenal forms. Although they are generated over time, phenomenal forms can manifest themselves as static and immutable. The dialectical logic enables researchers to recognise the

historical specificity and social construction of those phenomenal forms (Wainwright, 1997). The production of knowledge should also be related to specific historical and social contexts, and should contain within it a theoretical framework to guide social analyses. However, this does not imply the examination of social phenomenon with predetermined theories.

> Objects of theories do not exist out there in the world just waiting for theories to observe and explain them. Our view of world — the objects we find in it — is itself shaped by the theories we use to analyse the world that we see…. [It is not] true that we first have theories in our heads which then determine both the particular objects we see and how we understand them. (Wolff & Resnick, 1987, p. 18)

From a dialectical materialist approach, one should be aware of the dialectical relation between theory and practice. Knowledge generation is based on the notion of praxis, "a process whereby human beings, by means of continuous transformation of nature and societal relationships, secure their existence" (Bodemann, 1979, p. 155). It is the practical activity through which true content of concepts is established. The theories that are considered should be able to generate the desired results. Knowledge generation is a creative and critical process, and theories produced by this process guide the practical activity.

Based on this line of reasoning, it can be inferred that research is always influenced by the researchers' beliefs and truths, worldviews, and desires. The aim of a researcher is neither to produce objective or value-free results, as in the case of positivism, nor to adapt an open-ended approach, as in the case of interpretivisim. In either qualitative or quantitative methods, the researcher should aim for a sceptical approach to the results from both methods, being aware that facts may disguise the essence of a phenomenon. Rather than accepting them at face value, a researcher should examine the results by the insights offered by the structural and historical analyses in order to deepen an understanding of the issue.

6.3 Justification for Using Mixed Methods

The argument in this study is that research methods, which are usually kept separate within positivist and interpretive approaches, could be mixed, depending on the purpose of the study. Mixed methods can offer the potential to have an in-depth understanding of an object that would not be possible with a single method. Therefore, a researcher should be

aware of the strengths of the both quantitative and qualitative methods and how to benefit from both.

Some studies employ mixed methods in order to verify the findings from the quantitative method with insights from the qualitative method, or vice versa. However, in this study, mixed methods are not used for the purpose of confirmation. Rather, mixing methods is seen as a tool for gaining a better understanding of the object of inquiry, which in this case is the growth of debt among workers in Turkey. What is the importance of mixing methods for a methodological approach of dialectical materialism? The quantitative method enables a researcher to see empirical facts about phenomena in the real world at a specific location and time. As stated by McEvoy and Richards (2006, p. 71), "the strength of quantitative methods is that they may be used to develop reliable descriptions and provide accurate comparison. In the explanatory phase of an investigation, quantitative methods can identify patterns and associations that may otherwise be masked". Employing a quantitative method by carrying out fieldwork is especially useful when official statistics do not provide data on a certain categories, such as working-class people, as in the case of this research. The aim is not to test or confirm hypotheses through the statements of initial axioms and assumptions, as in the case of positivist approach, but to discover the descriptive statistics about the case under consideration.

However, quantitative methods by itself may not be enough because empirical verifications can mask the essence of a phenomenon which is different from its appearance. In such a situation, qualitative methods might enable a researcher to see the hidden, underlying structures related to the object of inquiry and to avoid taking descriptive statistics as cut-off points. As McEvoy and Richards (2006, p. 71) put forward, "qualitative methods can help to illuminate complex concepts and relationships that are unlikely to be captured by predetermined response categories or standardized quantitative methods". A further benefit of qualitative methods is that, since they are open-ended, they may enable a discovery of themes that could not be predicted in advance (McEvoy & Richards, 2006). However, it is important to insert a caveat here. Under a dialectical materialist methodology, the aim in exploring the hidden themes is not to identify lived experiences and social beliefs of social actors; here, instead, qualitative methods are employed with the goal of seeing the evolution of a phenomenon and unravelling the relations underlying it (Wainwright, 1997).

A further challenge in using mixed methods is related to which phase of research the different methods are introduced. One method may be employed to facilitate the next phase of the study. For instance, in this study, a quantitative survey was followed by a series of

qualitative interviews. The purpose of the survey was to reveal the patterns related to workers' indebtedness in a specific time and place. The interviews were then carried out in order to explore how these patterns emerged and how they affected the workers.

6.4 Research Design: Setting and Sample Construction

The research was carried out among metal workers in Istanbul, Turkey. There are two main reasons for choosing Istanbul as the geographical place of my research. The first is related to the fact that the banking sector is well developed there. Second, it is an area where the weight of the industrial sector is significant and wage earners cluster. Istanbul is a city of approximately 13 million people, and the share of employment in Turkey's manufacturing sector, at 38%, is highest in Istanbul. Within this project, the focus is on workers in the metal sector, which is one of the most important in Turkey, as it employs more than 1 million workers, according to statistics from Turkey's Social Security Institution (SSI, 2010).

Once the research area and the target population are chosen, the next step is to construct the sample. There are two major types of sampling methods, namely, probability and nonprobability sampling (Blaikie, 2000). The availability of information, the nature of the research, and the cost of the research are the determinants when selecting a particular sampling method. Probability sampling involves the random selection of sample units where each element has equal probability of being selected. If a sample has not been selected using a random selection method, then it is called a nonprobability sample.

Nonprobability samples have both notable benefits and disadvantages over probability samples. The main advantage is that they generally involve lower costs than probability samples. Furthermore, a researcher might use a nonprobability sample in case it is difficult or impossible to obtain probability samples. The disadvantages of using a nonprobability sample is that such a sample might possibly be responsible for sampling bias which refers to "the systemic errors of a particular sampling method. These errors affect the capacity of the method to estimate population parameters" (Blaikie, 2000, p. 206). Why choose a sampling method, purposive sampling for this study, that is exposed to sampling bias?[114] Indeed, the choice of a sampling method is closely related to the purpose of the study being conducted. Although a purposive sample does not allow for generalizations beyond the specific characteristics of a group studied, it is not always the case in research that generalisation from a sample to population is the goal. In some cases, the generalization is less important than the

[114] For other examples of nonprobability sampling, such as convenience sampling, quota sampling, and snowball sampling, see Bryman (2001).

motive of "fit for purpose" (May, 2001, p. 95); the aim might be to have in-depth and detailed data from a small sample.

The purpose of this study is to have a deeper understanding of the causes and consequences of workers' debt. Though the small sample size lacks overall representation, it gives insights into a particular group for which there is no adequate macro-data.[115] Apart from not providing insights into the causes and consequences of workers' indebtedness, the available macro data did not provide in-depth information on the issue, for instance, the reasons behind the use of personal loans. More generally, macro-surveys do not capture the dynamics, processes, and relations behind the phenomena under investigation (Bardhan & Ray, 2006, p. 1). The use of purposive sampling enables a researcher to obtain detailed information about a certain group and have a deeper understanding of the complexities of a phenomenon.

The research for this study was initially designed to be carried out in factories, and it was believed that developing contacts through union networks would ease access to factory workers. However, having a broader look at the characteristics of employment in the metal sector revealed that the scope of the sample needed to be enlarged to include workers employed under different conditions. The final sample included factory, industrial estate, and shipyard workers. Constructing a heterogeneous sample enabled me to compare and contrast the relationship between workers' type of employment and their engagement in financial affairs. It is now useful to offer brief characteristics of these three categories of sample participants.

The research among factory workers was carried out in nine different factories in different parts of Istanbul. All factory workers in the sample were unionised,[116] and they were accessed through the Union of United Metal Workers. Most of the factories have been unionised for a long time, with two recently becoming unionised. They all benefit from collective bargaining; however, it should be noted that unionised factory workers in the sample do not constitute a homogenised group. There are substantial differences among them in terms of wage levels and regularity of wage payments.

[115] In the Turkish case, the available data is released by the Central Bank and the Banks Association of Turkey. Household surveys released by the Central Bank provide information on financial situation of households in general. The Banks Association of Turkey gives information on the indebtedness of households according to different income groups.

[116] In fact, the unionisation level and the number of workers who benefit from collective agreements are very low in Turkey. The rate of unionisation is 9.5% in Turkey, according to a report prepared for ILO (Toksöz, 2008).

The second group involves workers in industrial estates.[117] The companies in industrial estates are small, and each employs a small number of workers who are mostly low-paid and unskilled labour. In the context of this research, the data was collected from three industrial estates in Istanbul, all of which engage in metal manufacturing. Overwhelming, the majority of the workers in industrial estates are paid minimum wage.

The third group is shipyard workers. The research among these workers was carried out in the Tuzla region, which is one of the districts situated at the Far East edge of Istanbul. There are 46 shipyards in Tuzla, and 90% of workers are employed by subcontractors. Most of the workers are casual employees in shipyard sector and they are paid daily. Social security contributions of these workers are paid irregularly — even if a worker is employed 20 to 25 days in a month, in many instances the employer's share of social security is paid into the social system for just 3 to 5 days of that time. This is not uncommon. Therefore, generally, it is not possible for an average worker in shipyard sector to retire, even if he works for 30 years. Shipyard workers in Tuzla are generally nonunionized and they work under precarious working conditions.

6.5 Data Collection Methods

6.5.1. Quantitative method: Questionnaire

Quantitative data was collected through the use of questionnaires which were designed to be structured and closed. The objective to use the questionnaire was to gain a general understanding of the financial conditions of workers. More specifically, the questionnaire was designed to obtain types of general information about each worker on the following points: nature of indebtedness, employment situation, economic well-being, and information on the workers' relationship with banks. The questions related to debt are to understand the degree of indebtedness among workers and the reasons behind it, and they also sought to reveal how the perception about indebtedness has changed in recent years. Information on economic well-being involved questions about revenue sources, savings, assets, and financial difficulties and the strategies adopted to cope with them. The purpose is to situate the indebtedness and use of bank services within the context of workers' income and expenditure priorities. The questions about their employment situation are crucial to understanding the link between the types of employment and the ways in which workers

[117] The construction of industrial estates intensified in Turkey because of the economic crisis and economic stagnation in the first half of the 1990s (Doğan, 2007). This follows the general global shift of production towards small enterprises in order to reduce costs.

entered into indebtedness and now cope with the situation. Lastly, questions related to the banking sector sought to learn about workers' attitude towards banks and their knowledge of interest rates, regulations, and so on.

Along with the questions directly relevant to the research questions, other questions were also asked to obtain personal information to help characterise the sample. These included questions on age, gender, level of education, marital status, and more. The questionnaire included the following sections:

- Background Information on Socioeconomic Characteristics of Target Group
- Employment Situation
- Income and Expenditure
    - Changes in Household Income and Expenditures
    - Respondents' Ability to Handle Unforeseen Expenditures
    - Perception Regarding Debt
- Types of Debt, Credit, and Ability to Manage Debt
- Access To and Use of Banking Services
- Bank Loans
- Credit Cards
- Savings and Assets

Initially, pilot questionnaires were conducted on a small sample of metal workers in order to test their usability and overall applicability. After carrying out the pre-test, some misunderstood questions were reformulated and some unnecessary questions were simply dropped.

The actual research was undertaken in the summer of 2010. Questionnaires were conducted face-to-face in work places during lunch breaks or working hours, and each questionnaire took approximately 15 minutes to complete. Understanding that respondents might not feel comfortable discussing their financial issues in front of other workers, questionnaires were filled in and interviews were held as privately as possible. Interviewees were informed that their participation in the survey or the interview process was voluntary and that the information that they provided would be used only for academic purposes and would be kept strictly confidential.

The full survey sample consisted of 226 questionnaires; after omitting any with incomplete or invalid responses, the final sample was 220 questionnaires. One hundred ten

questionnaires were completed by unionised factory workers[118] and 55 in each of the other sample segments: industrial estate and shipyard workers. Metal sector is male dominated, so it was difficult to reach women. I deliberately tried to contact female workers, and ultimately 14% of the final sample consists of women.

6.5.2 Qualitative Method: Biographic-Narrative Interpretive Method (BNIM)

The particular qualitative method employed in this study is narrative research. It is a way of conducting qualitative study in which the researcher asks individuals to provide stories of their life. More specifically, narrative is a discourse which connects events in a temporal sequential order and offers insights into the meaning of behaviour and experiences from the perspective of individuals (Elliot, 2005, pp. 3-4). The BNIM employed in this research is a special form of narratives. This method is often referred as life story in the literature. BNIM was developed by researchers at the University of East London, Centre for Biography and Social Policy (Chamberlayne & Rustin, 2002). The term refers to the generation of a story about the lives and personal experiences by the individuals themselves. The method has two major strengths which serve well to the goals of this study. First, it aims to capture the "experience of events that take place over periods of time, and is not confined, as survey methodologies often are, to a snapshot taken at one moment" (Rustin, 2002, p.78). Second, the method considers the historical and societal conditions that played roles in the phenomenon, as well as the personal experiences of it. It seeks to reveal the interconnections between individual experiences and their larger social context (Chamberlayne & Rustin, 2002). In a nutshell, it is aims "to clarify both (evolving) situations and (evolving) subjectivities by exploring locally-historically 'situated subjectivities'" (Wengraf, 2009, p. 36). Hence the method fits the purpose of this research, which is to understand the social and cultural norms, historical circumstances, and social policy environment that shape the individual experience of getting into debt, in accordance with the dialectical materialist approach.[119]

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[118] The sample encompasses a much greater share of organized industrial factory workers as a result of the ease in accessing them via their trade union, the Union of United Metal Workers.

[119] BNIM is often used to build a grounded theory. However, my aim in analysing people's experiences is neither learning everything from the people I studied nor building a theory upon their stories. Rather, the aim is to evaluate the stories from insights I gained from an external theoretical schema: historical materialism. The Marxist analysis denies "the authenticity of experience so pushes so strongly for the revelatory power of theory" (Harvey, 2006, p. 113). In this sense, the aim here is not just to see the world through the eyes of the people being studied, but from a critical perspective to place these observations into social and historical contexts and to understand why and how different forms of behaviour have developed (Wainwright, 1997). Hence, rather

After carrying out a few pre-test interviews on metal workers and reformulating the interview design, ten interviews were conducted, and five of them were selected for in-depth analyses. The goal was to reflect diversity, therefore, the five interviews were chosen from each subgroup: one from the unionised workers and two each from the industrial estate workers and shipyard workers.

The interviews were carried out in workplaces or coffee shops, and were conducted on a one-to-one basis between each participant and myself. They ranged in length from 25 minutes to one hour. Consent from each interviewee was obtained before starting the interview. The participants were asked for permission to record their life stories, were informed that their identities would remain anonymous, and were told they were free to withdraw from the process at any time.

In designing the interviews, I benefited from the work of Wengraf (2001, 2009). The interviews involved three stages. The first stage is characterised by minimalist interviewer intervention. It started with an initial conversation to allow the participants to ease into the interview process and then followed by an open narrative question to set the foundation to understand the whole story of the participant. The opening narrative question was:

> I would like to know the story of your life since you encountered financial difficulty for the first time. Please tell me all the experiences and events that are important for you, personally. Start wherever you like. Please take the time you need. I will listen first; I won't interrupt. I will be taking a few notes in case I have any further questions after you have finished telling me your story.

This initial start in BNIM induces narrative. The emphasis on uninterrupted narration is related to the aim of the method to reveal "situated subjectivity" (Wengraf, 2001). The idea is that in order to understand an individual, one needs to understand his or her situation. The story is told from a personal perspective, but the interviewer tries to have an independent stand and to understand how the story is told. In other words, the aim in pushing for a narrative form of communication is to see how participants experiences' evolved over a particular time period, how they internalized the new situations, and how they adapted coping mechanisms. This allows for an account that is not limited to the participants' present context and views.

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than accepting the way that participants tell their experiences at face value, the attempt is to analyse their stories in the context of a broader social and historical themes.

While participants were telling their stories, I took notes on key topics mentioned throughout the narration. The first stage was completed when the participants said everything they wanted to. There was then a short break between the first and second stages of the interview process, which allowed me to choose items in my notes relevant to my research objective and to structure questions that I wanted to ask in the second session. Questions in the second stage were again designed in a way that would allow narration.

If the relevant themes could not be explored during the second stage, then more structured questions were asked in the third stage. The themes which were tackled, if not already identified in the previous sessions, were:

- Living standards, income sources, patterns of expenditure, and consumption
- Changes in the patterns of borrowing over the life course
- Reasons for getting into debt
- Access to banks or available sources of credit
- General attitude towards banks
- Whether there was a change in life standards after the 2008 crisis
- Savings, assets, and management of each

6.6 Data Analyses

6.6.1 Quantitative data analysis

The quantitative data were statistically analysed using the SPSS program. Two approaches were used to analyse the data. First, descriptive statistics were used in order to summarize the information. Second, in order shed light on the differences among groups in the sample, the survey data was broken down and presented in segments where it was relevant. Comparing and contrasting characteristics of different groups served the purpose of examining the link between employment conditions and workers' use of financial services.

The results were then incorporated into tables and figures to make it easier for the reader to comprehend the material. Furthermore, the descriptive analysis was enriched with field notes that included valuable information gathered from casual comments and conversations during and at the end of interviews.

6.6.2 Qualitative data analysis

All 10 interviews were transcribed verbatim. Five interviews were then selected for in-depth analyses. The original transcripts of interviews were prepared in Turkish, which increased the accuracy of the data analysis. In the last stage, selected fragments of interviews were translated into English. Translations are mine.

The transcripts were read a number of times before starting data analysis. Initial impressions arising from the data were noted in the margins of the transcript. A detailed analysis was undertaken with a coding process, and the coding was used to generate themes for further analysis. As significant issues relevant to the research question were identified (for instance, the way different types of employment affected credit use, participants' reasons for getting into debt, etc.), themes were organized relevant to research questions. These themes were often used to create headings for the narratives.

As a final step of data analysis, the themes and the overall data relevant to the research question were presented as case studies, with the aims of presenting the dynamics and complexities of people's experiences and demonstrating the interconnectedness of different factors.

6.7 Limitations

A major strength of this study is that it analyses workers' indebtedness in Turkey from a broad perspective by considering the socioeconomic conditions that underlie the consumer debt phenomenon. In doing so, it particularly focuses on the penetration of finance into the daily lives of workers by undertaking fieldwork that has not previously occurred in Turkey.

The major limitation derives from the selection of a single city and a particular work sector. As such, the sample cannot be considered statistically representative. However, focusing on a small sample served well to the goal of this study: to have a deeper understanding of the complexities of consumer debt in Turkey. More specifically, it allowed for an in-depth understanding of the changes in the economics, social, and cultural circumstances of workers, and the causes and consequences of their indebtedness. Furthermore, collecting data from workers with different employment statuses enabled a comparison to understand the implications of employment type on the use of financial services.

While surveys were employed on a reasonable number of women, the weakest point about the life stories method is it had to be confined to male workers. The greatest factor in confining the life stories to male workers is that the female workers were unwilling to have their interviews recorded.

Chapter 7: Analysis Based on the Quantitative Data

7.1 Introduction

This chapter discusses the nature and extent of financialisation of workers' income in Turkey based upon the survey conducted among 220 metal workers (189 men and 31 women) in Istanbul in 2010. The primary focus of the chapter is descriptive and includes original findings, given the scarcity of information currently available on this important topic. Whenever needed, the descriptive analysis is complemented with informal interviews conducted with the respondents during and at the end of questionnaires. This chapter offers an analysis of the survey results, which is supplemented by an analysis of the qualitative data presented in Chapter 8.

As argued in the introductory chapter of this dissertation, the current rise in indebtedness has been unique in several ways, namely, changes in the: nature of relationships between lenders and borrowers, perception of credit and debt within the society, and socioeconomic conditions under which individuals become indebted. On that basis, in order to be able to develop an understanding of the peculiarities of the consumer credit and indebtedness of metal workers in Turkey, it is necessary to study various phenomena related to the topic. These include people's socioeconomic characteristics, financial practices, ways in which they deal with unexpected expenditures, and their financial capability and literacy. Further, as financialisation of personal income is broadly defined as to cover not only developments related to consumption and debt but also changes in savings and assets, it is essential to investigate these latter aspects of the phenomenon. Therefore, this chapter presents data related to all the aforementioned points in order to have an accurate understanding of the financialisation of workers' incomes. In doing this, it demonstrates the survey data in a way that allows a comparison between different segments of the metal workers, namely, unionised factory, industrial estate, and shipyard. This illustration aims at identifying the link between different types of employment and the ways in which workers experience penetration of finance into daily life.

This chapter proceeds as follows. Section 7.2 provides personal profiles of the sample participants, their employment, and income status. Section 7.3 presents the survey results regarding the changes in their household income and expenditures prior to the past three years that the research was conducted (2007 to 2010). Section 7.4 provides data on different types of debt owed by the participants and discusses their ability to manage debt. Section 7.5

seeks to understand access to and use of bank services by the participants. This is followed by a detailed analysis of the characteristics of bank loans and credit cards used by the respondents, in Sections 7.6 and 7.7, respectively. Section 7.8 presents the data collected on the financial capability and literacy of the participants. Section 7.9 reviews the savings ability of the sample and their own projections on their financial situation for retirement. The small number of women in the sample limits the possibility of making a reliable comparison between male and female participants. For this reason, additional analysis of the data on women participants is given in section 7.10. The chapter concludes with a general discussion of the survey findings.

7.2 Socioeconomic Characteristics of the Target Group

The sample comprises 220 questionnaires; 110 questionnaires were administered to unionised factory workers, and 55 questionnaires were conducted in each of the other sample segments, industrial estate workers and shipyard workers. The sample encompasses a much greater share of organized industrial workers in factories due to the ease of accessing them via their trade union, the Union of United Metal Workers. The profile of the survey respondents is presented in Table 7.1:

Table 7.1: Profile of the Survey Respondents

Descriptor			Unionised Factory Workers		Industrial Estate Workers		Shipyard Workers	
	# of Respondents	% in Total Sample	# of Respondents	% Unionised Factory Workers	# of Respondents	% Industrial Estate Workers	# of Respondents	% Shipyard Workers
Sample	220	100	110	50	55	25	55	25
Sex								
Male	189	86	83	75.50	51	92.70	55	100
Female	31	14	27	24.50	4	7.30	0	0.0
Age								
17–25	37	17	12	11	13	24	12	22
26–33	80	36	38	35	20	36	22	40
34–42	78	35	48	44	14	25	16	29
43+	25	11	12	11	8	14	5	9
Household Size								
One	10	5	4	4	2	4	4	7
Two	21	10	11	10	7	13	3	6
Three	69	31	38	35	14	26	17	31
Four	63	29	34	31	14	26	15	27
Five or more	57	26	23	21	18	34	16	29
Education								
Illiterate	1	1	0	0	1	2	0	0
Literate but not graduated from any school	1	1	0	0	1	2	0	0
Primary school	93	42	33	30	26	47	34	62
Middle School	37	17	7	6	17	31	13	24
High school	25	11	15	14	6	11	4	7
Vocational high school	52	24	47	43	3	6	2	4
University	11	5	8	7	1	2%	2	4
Wage (in TL)								
500–900	85	39	38	35	58	58	9	27
901–1300	70	32	29	26	33	33	6	42
1,301–1,700	28	13	17	16	2	4	15	16
1,701+	32	15	26	24	0	0	23	11

Since the number of women working in the metal sector is small, men dominate the sample: only 14% of the sample consists of women. Most of the women participants are unionised factory workers, and the rest are workers in industrial estates. No women work in shipyards; therefore that sample consists of only male workers.

With regards to age, the sample includes higher proportions of workers in the 26–34 and 35–43 age brackets. In terms of the demographics, the average household size is 3.93 people, although there are variations amongst the three groups. Unionised factory workers

had the smallest average household size (3.72) and the shipyard workers had the largest (4.18).

Regarding education overall, the dominance of those with primary school education (42%) and vocational education (24%) reflects the major educational composition of the sample. However, looking at the three segments of the workers separately, unionised factory workers have a higher level of education, with 57% being high school graduates (including vocational high school). Conversely, a large share of the industrial estate workers (47%) and more than half of the shipyard workers (62%) only finished have a primary school education.

In terms of residence, 63% of the respondents migrated from somewhere else. More specifically, 51% (unionised workers), 73% (industrial estates), and 78% (shipyards) of the participants migrated to Istanbul from other cities. Among migrated participants, 14% reported that they came from a province, 28% from a district, and 59% from a village. This is consistent with the general migration tendency in Turkey from villages to cities. In terms of the previous place of residence, unionised factory workers mostly came from the Black Sea region and Central Anatolia (for example, Samsun, Giresun, Cankiri), industrial estate workers from the Black Sea and Southeast Anatolia (for example, Tokat, Ordu, Urfa), and shipyard workers again mainly migrated from the Black Sea and also Central Anatolia region (that is, Sivas, Giresun, Samsun, Tokat).

All of the participants in the survey are employed in the private sector of the metal industry. With regards to the job characteristics, the majority of the participants perform tasks which require specific qualifications and schooling, such as turners, operators, welders, blockers, and metal platers. There are also unskilled assembly workers, such as painters and storemen. The women who work in factories were almost all unskilled assemblyline workers.

The differences in the wage levels are indicative of the type of work. Small-scale enterprises in industrial estates mainly offer low-skill jobs, with the most common being metal plating. The majority of the participants working in factories perform tasks which require specific qualifications and schooling (car part assemblers, operators, turner and blockers). In line with this, there is a remarkable difference between the wage averages of the two groups. While the average wage of the factory workers is the highest (1,280 TL per month) among the sample, the industrial estate workers' is the lowest (875 TL per month). There is also a dramatic difference between the average wages of men and women in both of the segments. The average wage of women in factories is 854 TL per month, and most are low-skilled machine assemblers. The average wage of women in industrial estates (750 TL per month) is again lower than that of men in the same segment of work, and in both women

are performing unskilled jobs. In the shipyard sector, casual employment is common and the average salary is 1,143 TL per month. Most of the workers in shipyards are welders, painters, assemblers, sledders, scrapers, and so on. As aforementioned, no women work in the shipyards.

7.3 Income and Expenditure

Thirty per cent of the respondents have at least one more wage earner in the home. The majority of the respondents (79%) have no additional sources of income other than wages. Among those with additional income, the most-mentioned source is pension income (36% of the additional-income earners). Pension income is either the sole income of an older person in the family or additional income of the respondent. There were 6 workers in the survey who had retired, but since their retirement income was not enough to cover life expenses, they started to work again.[120] Thirty-one per cent of those who had additional income reported that they had rent income from real estate or other property belongings. An equal percentage of people stated that they received money, goods or services from family/relatives in their hometown. Nevertheless, the percentage of people with hometown assistance among the whole sample is only 6%, indicating the weakening of workers' relations with their hometown which had previously been strong in Turkey.

The average salary of the sample is 1,149 TL. Together with the additional income and income of other households, the average monthly household income of the sample is 1,465 TL, and the average income per household is 446 TL. See Table 7.2 for the distribution of household income across three segments:

Table 7.2: Monthly Household Income (in TL)

	Unionised Factory Workers (%)	Industrial Estate Workers (%)	Shipyard Workers (%)	Total (%)
0-500	.0	5.5	3.6	2.3
501–900	34.5	58.2	27.3	38.6
901–1,300	26.4	32.7	41.8	31.8
1,301–1,700	15.5	3.6	16.4	12.7
1,701+	23.6	.0	10.9	14.5
Total	100.0	100.0	100.0	100.0

[120] Among those retired workers, there was an industrial estate worker who started to work again in order to pay the bank loan that he took out to meet the wedding expenses of his son.

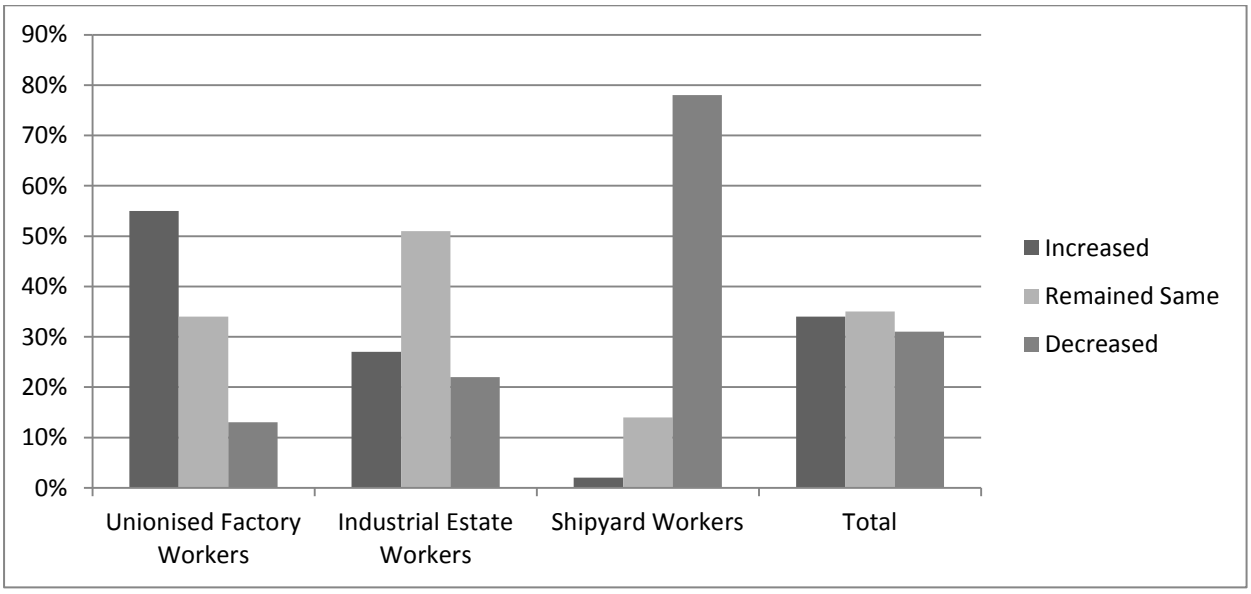
As Table 7.2 shows, unionised factory workers' income is dispersed across all the income brackets. In contrast, the household income of the industrial estate workers is concentrated in a lower income brackets, with more than half (58%) falling into the income bracket of 501–900 TL. Regarding the shipyard workers, their monthly household income is clustered around middle range (901–1,300 TL). Considering that the minimum monthly amount needed to sufficiently feed a family of four is 822 TL per month in Turkey,[121] the results suggest that household income is very low, in particular, for the industrial estate workers.

7.3.1 Changes in Household Income

Thirty-four per cent of the respondents reported that their income increased over the past three years, with the majority of those being unionised factory workers (see Figure 7.1). This is related to the fact that, being unionised, they benefitted from collective agreements, and these workers receive salary increases every 6 months. While 35% of the respondents reported that their income remained unchanged in the reporting years, 31% declared a decline in their income. As seen in Figure 7.1, it is mostly shipyard workers (78%) who reported a decline; this is related to the severe impact the 2008 global crisis had in the shipbuilding sector.

[121] This is the average monthly income estimated according to a survey conducted by the Confederation of Turkish Labour Unions (Türk-İş). The figure is for July 2010, which is when the fieldwork was conducted.

Figure 7.1: Changes in Household Income

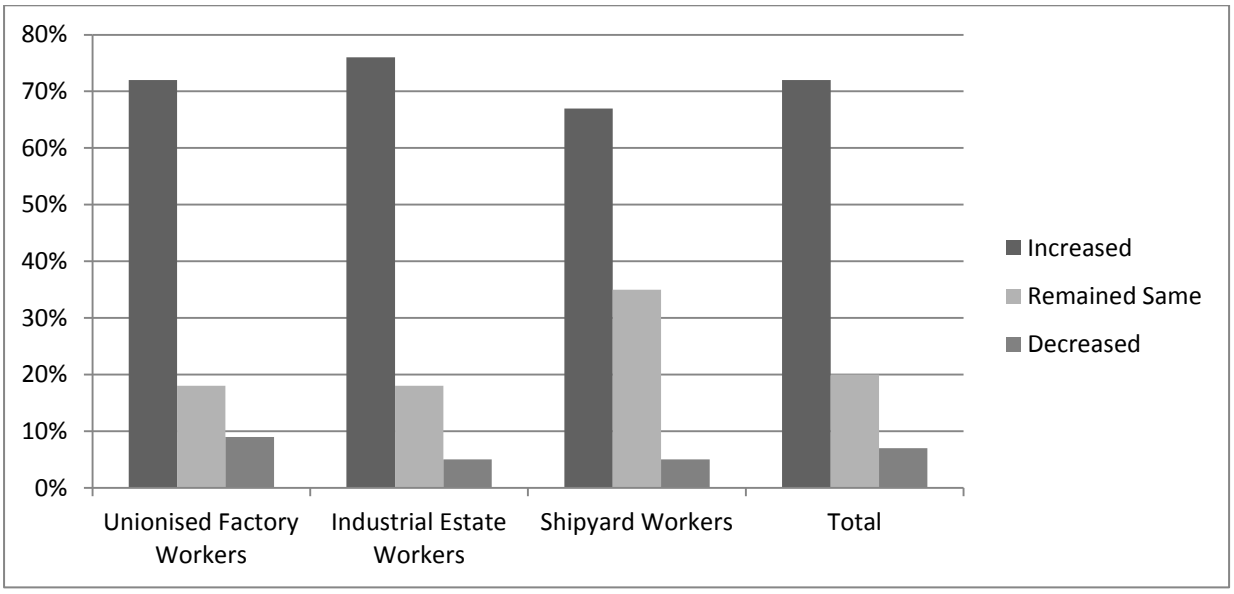


The most common reasons for a drop in income were cited as a decrease in wages and salaries (56%) and job loss (41%). Decreases in salaries were generally experienced as a reduction in work hours, and shipyard workers, who are hired on a casual basis, were most affected by this. Those who reported job loss generally meant either a demotion from a better paying job to a worse one, the ending of a contract, or the job loss of one of the household. Again, casual workers in shipyard sector were most affected by ending contracts.

7.3.2 Changes in Household Expenditure

The respondents were also asked about changes in their expenditure during the three years under inquiry. Figure 7.2 shows that below, the majority of participants (72%) reported that their expenditures increased during the period, while 20% reported that their expenditures remained same, and only a small proportion (7%) reported a decrease. The results might seem contradictory. As most participants indicated a decline in their income, it would be expected they would report a decrease in their expenditures in order to balance their household budgets.

Figure 7.2: Changes in Household Expenditure



To understand the possible causes for the increases, those who reported an upward change in their expenditures were offered a selection of seven possible reasons for the increase, namely, rent payments, health expenditure, education expenditure, daily expenditure, leisure and travel expenses, credit/ loan payments, and other. The most commonly selected item was daily expenditures (50%), including expenditures on food, electricity, gas,[122] and having a newborn baby were frequently cited.

This rather contradictory result — decreased wages but increased expenditures — may be due to the effects different levels of inflation have on low-income households. The global economic crisis that took hold in the second half of 2008 was preceded by accelerating food and energy prices around the world.[123] When food and energy prices rise, families with lower incomes feel the pressure more acutely as food and energy expenditures make up a larger share of their total expenditures. In Turkey, according to data released by the Turkish Statistical Agency, while the food expenditures accounted for 15.6% of the average annual expenditures of the richest 20th quintile of households between 2008 and 2010, it constituted

[122] One of the unionized workers was stating that he was sometimes allocating one third of his income to gas (heating) expenses in the winter.

[123] The CBRT data indicated that inflation rose to 9.15% at the end of the first quarter of 2008, and this situation mainly resulted from increases in energy and food prices (CBRT, 2008b). More specifically, it was stated that 6.13% of the annual CPI inflation during the period was related to food and energy items. The following years witnessed more gradual price increases.

27% of the average annual expenditures of the households in the poorest 20th quintile over the same period.[124]

Evaluating the results from the fieldwork on the basis of these data helps to explain the reasons behind the reported rise in expenditure. However, there is a caveat. Although participants reported a rise in their daily expenditures due to price increases, whether their expenditure really increased was questionable, considering the income declines they faced. Indeed the same data from the Turkish Statistical Agency revealed that from 2008 to 2010, there was a decline in the share of total expenditures devoted to food expenditures, from 16% to 15.3% for the poorest 20th quintile of households. Moreover, research undertaken by TEPAV, UNICEF, and the World Bank to investigate the impact on the 2008 crisis on the welfare of families in Turkey, pointed to some of the ways in which households adjusted to lower incomes. According to the survey results conducted in May and June 2009, families reported that they adjusted by reducing food expenditures so that other vital expenses, like education, could be protected (TEPAV, UNICEF, and World Bank 2009).

So, there is evidence to argue for a potential reduction in the participants' daily expenditures in the face of their declining income. This is also in accordance with the theoretical arguments of this dissertation. As put forward in Chapter 2, the peculiar ways in which labour power is reproduced creates room for an adjustment in spending that is necessary to create labour power as a commodity. It is by increasing the role of domestic labour in the reproduction of labour power that the fluctuations in income and increased debt service burden can be compensated.[125]

Returning to my fieldwork results, along with daily expenditures, participants reported an increase in expenditures on education (44.3%) and healthcare (26%). This might be a result of the decline in public expenditure on welfare provisions, as discussed in Chapter 5. School expenses, including school uniforms, transportation costs, and school supplies appeared to place an important burden on workers. Some workers mentioned moving to another district in order to be able to send their children to a better public school. Others told me that they also spent money on private tutoring for their children. For most of them, education was considered to be essential and was prioritised over many other things. It was

[124]Gürsel and Altindağ (2010) provide an in-depth analysis of the inflation levels to which the poor and rich households are subject. They demonstrated that as the poor households had a relatively higher share of food expenditure as part of their total consumption, the inflation they were subject to was 11.8 points higher than that of the affluent households, as of February 2010.

[125] For instance, research done in the aftermath of the 2001 crisis provided evidence on how workers adjusted to by purchasing goods that were not brand-name, making more canned food and pastries at home, using more of their dried vegetable supply, and so on (see Erbaş & Turan, 2009).

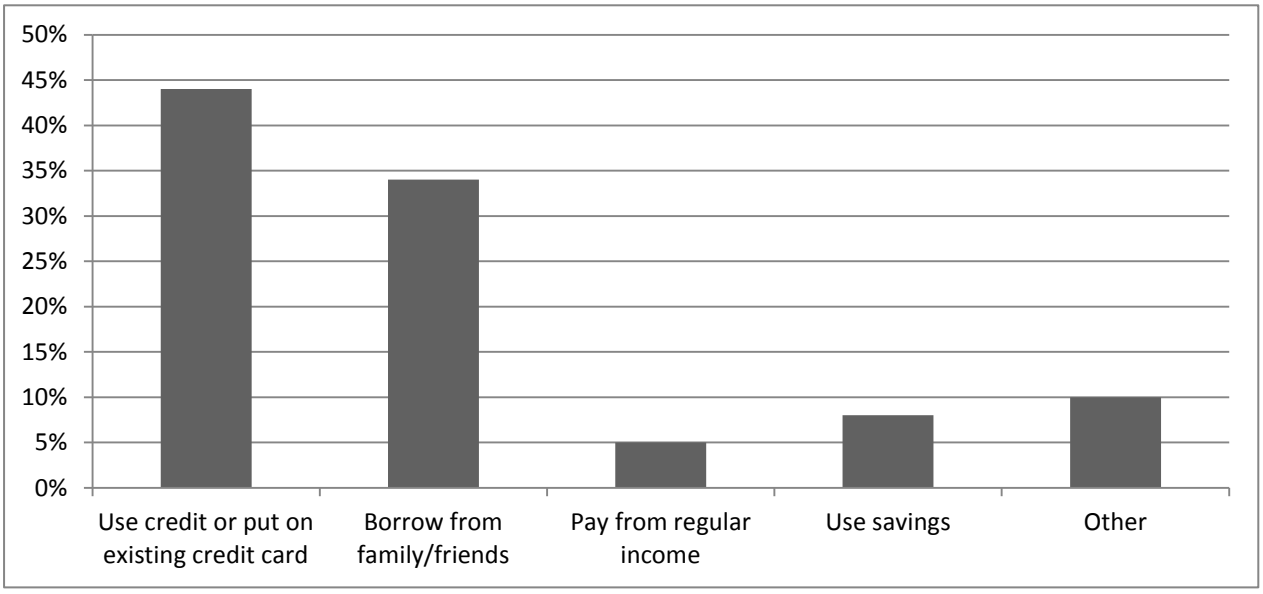
seen as the best and only investment that could be made in their children's future to provide a better quality of life. A statement by an industrial estate worker who only attended primary school is illustrative of this: "No matter what happens, I will get my child educated. An uneducated person is treated like a second class citizen" (Questionnaire #85). Regarding healthcare expenses, although most of the workers in the sample had health insurance, they told me how they sometimes needed to make out-of-pocket payments. As presented in Chapter 5, the new regulations in Turkey's healthcare system introduced additional employee contributions and marginal payments at every stage of treatment. Further, participants also mentioned how they sometimes needed to visit a private doctor for better or faster service. These extra payments on healthcare are related to the inefficiency of the healthcare system in Turkey.

Thirty-five per cent of the respondents reported that their monthly household expenditures usually exceeded their monthly household income. The majority of those participants (86%) were found to be indebted, indicating that they closed the gap between their income and expenditures by borrowing. Given the small share of participants who could afford to save money (see Figure 7.20), this is not a surprising statistic. Fifty-three per cent of respondents reported that their household expenditures were equal to their household income, and the rest (12%) reported that it was less.

7.3.3 Respondents' Ability to Handle Unforeseen Expenditures

In order to have an understanding of workers' coping strategies, participants were asked how they would find the money to cover a large, unexpected expenditure, such as replacing a washing machine or needing a home repair. As an expected outcome of low levels of savings (see Section 7.9), only small share of participants (8%) reported that they would use savings. The ratio of people who said that they could meet an unforeseen expenditure from their regular income is also small (5%). As a result, the majority of respondents indicated that they would need to borrow in order to meet such expenses (see Figure 7.3).

Figure 7.3: Question: How Do You Handle Unforeseen Expenditures?



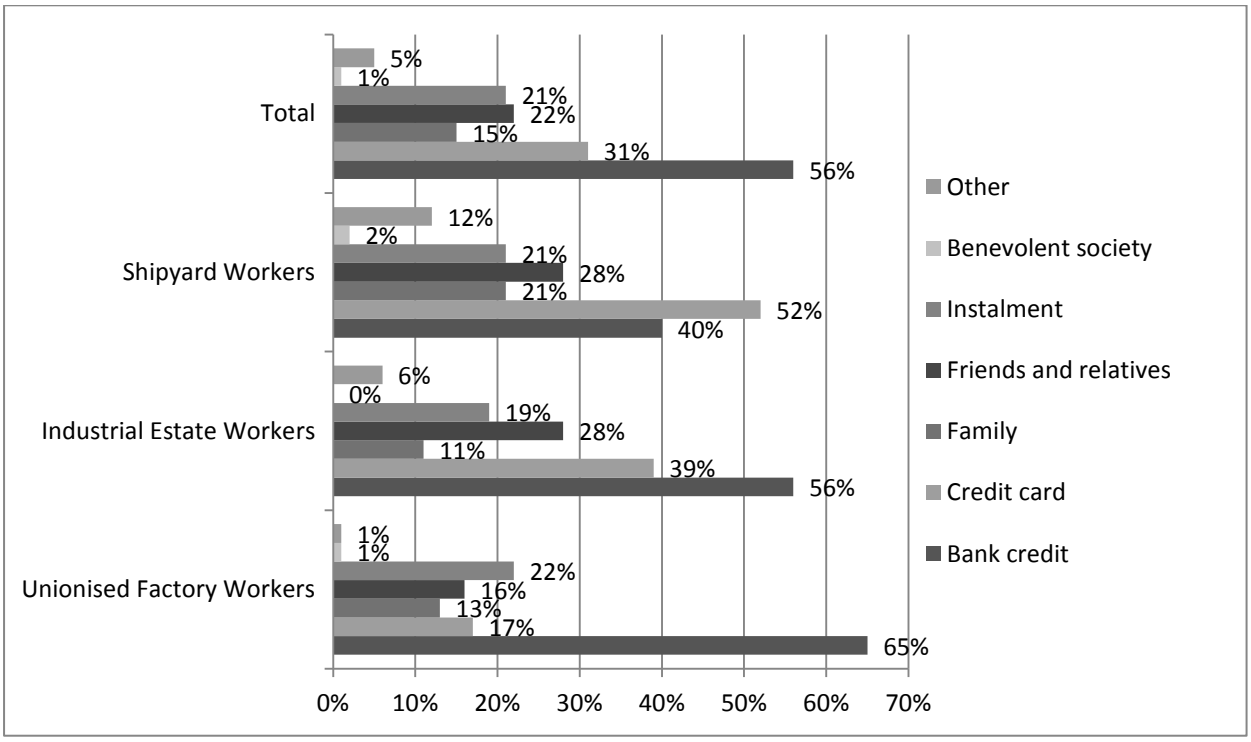
The results suggest that in the event of an unforeseen expenditure, participants would most often rely on credit cards or bank loan to cover costs (44% of the respondents). This means, having no financial resources to call upon, credit is regarded as the first option in coping with an unexpected expenditure. The second most chosen way of dealing with an unexpected expenditure is borrowing from family or friends (34% of the respondents). A small number of those surveyed told me that they would not able to deal with an unexpected expenditure, and, therefore, they would go without.

7.4 Borrowing: Types of Debt, Types of Credit, and the Ability to Manage Debt

Evidence from the fieldwork shows that borrowing is widespread among metal sector workers. Overall, 73% of the participants reported having some type of debt. Further analysis showed that there was no significant relationship between demographic characteristics (for example, age and household size) of the workers and their indebtedness. This might be due to the limited sample size, and so it should be considered cautiously.

The most common types of debt were bank loans and credit card debt. While 56% of the indebted participants indicated that they were in arrears on bank loans, 31% reported that they carried credit card debt (see Figure 7.4). It is apparent that debt has become a common part of life for metal workers.

Figure 7.4: Question: What Types of Credit and Debt Do You Have?



Analysing the data separately for the three different groups of workers showed that bank credit was the most common type of debt among unionised workers and industrial estate workers, and credit card debt was the most common among shipyard workers. The possible reasons for this are discussed in Section 7.5, including a detailed analysis on borrowing from formal institutions.

However, it is useful first to look at the characteristics of informal borrowing among the participants. As shown in Figure 7.4, 27% of the participants indicated that they owed money to family, relatives, and friends. Familial borrowing and borrowing from friends seemed to happen on a reciprocal basis, and the expectation of repayment appeared to be low. Insights from interviews showed that, especially in the case of high indebtedness, workers were not concerned about repaying family and relatives at all.

In comparing the two types of borrowing, it can be seen that the ratio of borrowing from family and friends is low relative to formal borrowing, with some workers expressing strong reluctance to borrow from family and friends. One of the participants explained why he preferred to borrow on credit cards: "It is better to have a few credit cards than to have a few friends. If you have credit cards then at least you could withdraw money when you need it" (Questionnaire #180). The reluctance to borrow from family or friends necessitates some sociological analysis which is outside the scope of this study. However, one possible reason

might be related to being in a social network with people who have similar financial difficulties. On the other hand, the situation might indicate a transformation of familial relationships and friendships with the increased commodification of everything in the current phase of capitalism. Some participants asserted that asking for money from friends and relatives put a strain on their relationships.[126]

None of the respondents reported borrowing from moneylenders or usurers. This might be due to the availability of other borrowing options, especially credit cards, leaving little demand for less preferred forms of borrowing. Another possible reason might be participants' unwillingness to reveal these types of borrowing. If this is the case, then it is difficult to identify the extent of these practices. Indeed, as discussed in Chapter 8, evidence from the interviews shows that new forms of usury-type lending accompany formal borrowing. For instance, Case Study 5, based on the life story of one of the workers interviewed, shows that point-of-sale (POS) machines are used to lend money and settle the cards credit debts in ways that resemble a kind of usury.

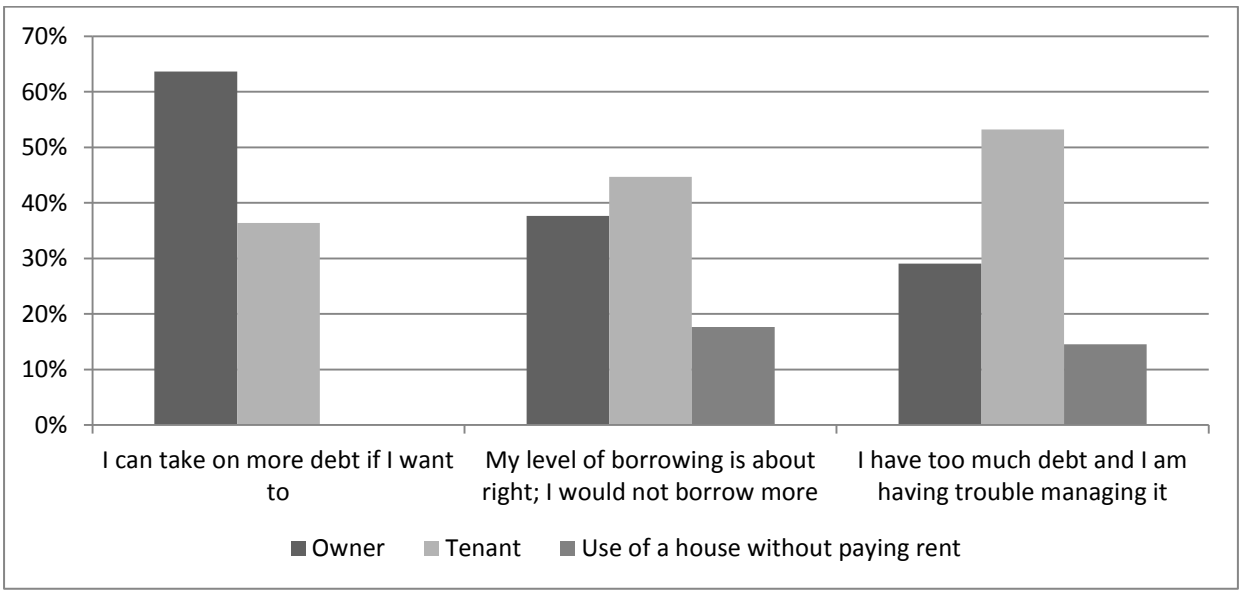
Participants were also asked whether they could manage their debt (see Figure 7.5). Only 7% of the indebted respondents said they could take on more debt if they wanted, while more than half (53%) felt comfortable with their level of borrowing but that they would not borrow more. The remaining 40% reported that they were carrying too much debt and were having trouble managing it. Among the three different groups of workers, industrial estate workers were most concerned about managing their debt (50%).

[126] The first case study in Chapter 8 gives an example of this.

Figure 7.5: Question: What is Your Level of Debt?

The survey data was also analysed to see if there was a relationship between difficulty in managing debt and housing status (see Figure 7.6).[127] Renters (53% of the respondents) appeared likelier to have too much debt and to experience difficulties in handling their debt. According to the results, homeowners showed greater potential in managing their debt. The ratio of home owners who reported that they could take on more debt was 64%.

Figure 7.6: Question: What Is Your Housing Status and Ability to Manage Debt?



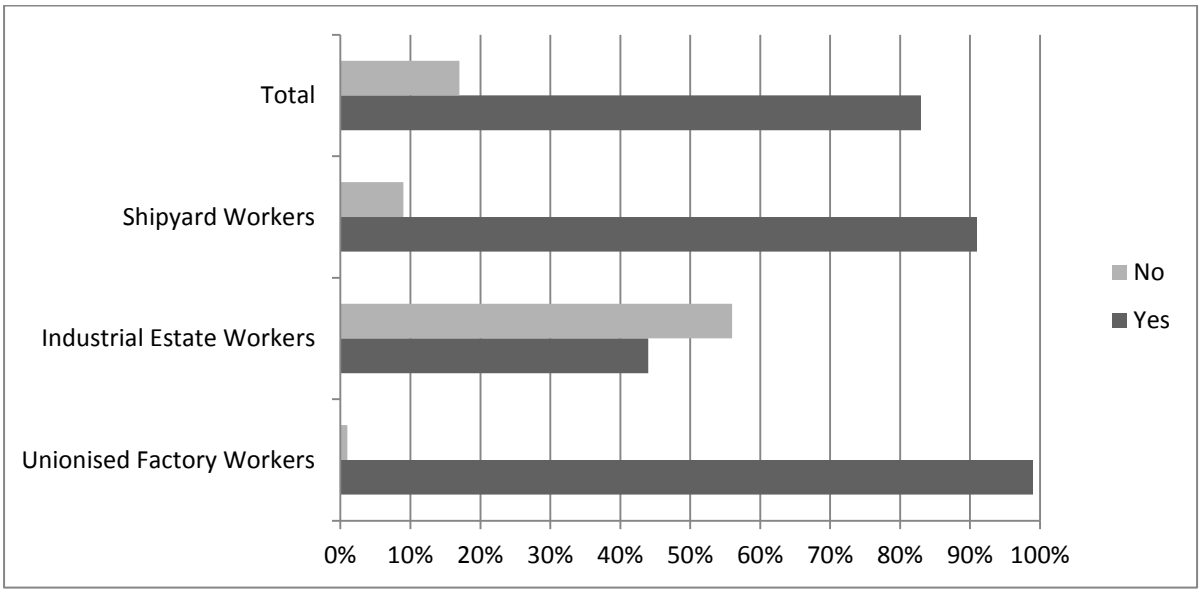
[127] Since only one of the respondents used government lodging, it is not included in the analysis.

Given that rent constitutes a further burden in times of income fluctuations, it is not surprising to find that renters have more trouble managing their debt.

7.5 Access To and Use of Banking Services

The majority of participants (83%) indicated that they had access to formal financial services because they had bank accounts[128] (see Figure 7.7).

Figure 7.7: Question: Do You Have A Bank Account?



Introduction of the new labour act in 2009 (act no. 5754) by the Ministry of Labour and Social Security (MOLSS) is an important reason why there's a high share of workers who own bank accounts. Under this act, it became mandatory for companies with more than 10 employees to pay workers by direct deposit into bank accounts instead of paying in cash. The law did not mandate paying wages and salaries into bank accounts for small enterprises with less than 10 employees. Therefore, for workers in those small enterprises, having a bank account is still determined more by personal choice. This might be the reason for the low share of account holders in industrial estates. As seen in Figure 7.7, only 44% of the industrial estate workers reported having a bank account.

[128] The high ratio of respondents with bank accounts should not be taken as representative of workers in general. Although the ratio of informal economy is high in Turkey (20% in general), the sample included only 5 people who are not registered with any social security institution. The low share of informal workers might be related to the unwillingness of workers in general to report that they are working unregistered, or it might be related to inclusion of workers who mainly work under heavy working conditions and who preferred to be employed registered. If the ratio of the sample from the informal segments of the sector was higher, the ratio of the workers without bank accounts would be higher as well.

Whether the law will function effectively remains to be seen. It is a common practice for employers to underreport wages and the number of workers in Turkey. This is especially true for small enterprises, as it allows them to pay lower social security contributions. Even though it will be required to make wage payments directly in workers' bank accounts from 2011 onwards, it is likely that some employers will keep underreporting wages and continue to pay salaries in cash. Some observations from the fieldwork demonstrated why this might be the case. For instance, in talking with two workers together who work at the same company, they revealed how wages payments were managed in practice. While one of the workers, who was a close relation to the employer, stated that wages were paid into bank accounts, the other (who was not a relative) told me that it was not. The first worker then explained that the company accountant withdrew money from the bank and delivered the cash to the workers to make the payment process easier. My impression was that the explanation was more motivated by this worker's desire to protect the employer, and his relative, rather than by his desire to clarify the way in which this process was carried out.

Although there are reservations regarding the full implementation of the law, it still has important implications for the financial behaviour of workers. For the purpose of this research, one of the important aspects of this new law is related to the ways in which it induces workers to have increased engagement with financial services. The aim of the law is to reduce the informal economy, but it arguably has the potential to create intensified financialisation of workers' income. A bank which reaches an agreement with a company to direct deposit salaries of employees in this company, firstly, send credit cards to the company employees and then market other consumer services such as personal loans. This leads to a vibrant competition among banks to acquire the rights to direct deposit employee salaries in each possible company. As a result, workers are now more targeted by banks and more affected by their marketing efforts. Once a worker has a bank account, credit cards are sent to the home addresses without consent, and other services are offered to workers and their families. Some male participants mentioned that there were bank officers who asked to issue credit cards to their wives as well.

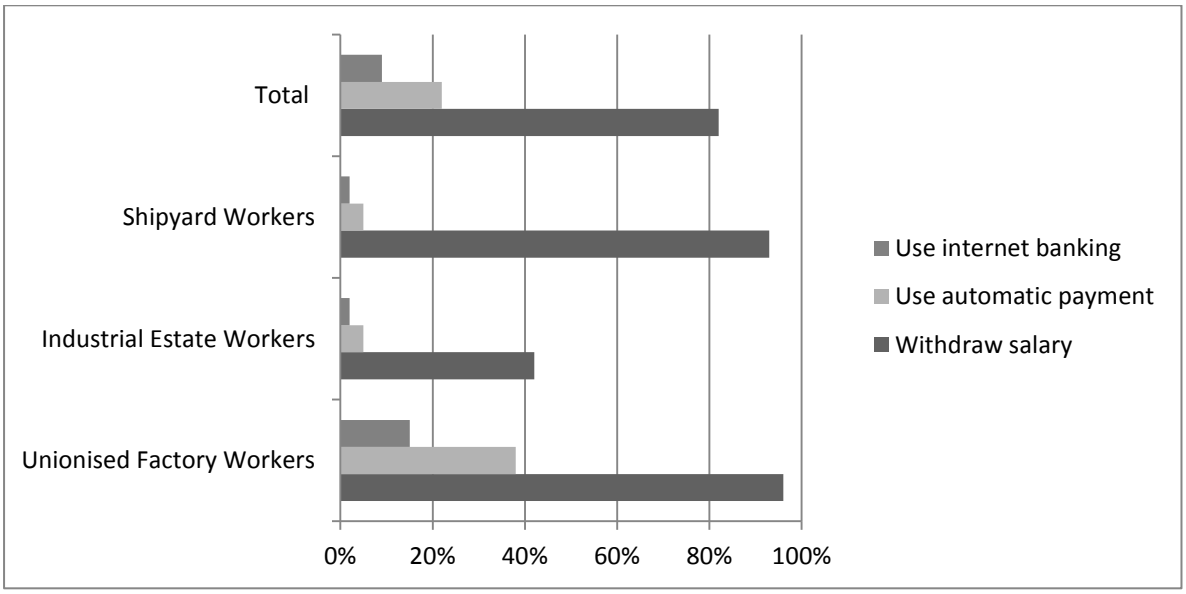
More broadly related to direct deposit, there are two other points to consider for the purpose of this study. First, arguably, direct deposit increases the likelihood of an indebted worker losing control over his or her wages because banks have a right to freeze accounts until a debt is paid off, meaning there may be limited access to the earned wages. It was striking to observe how workers adopted new strategies to avoid banks taking payments without permission. This was exemplified by one of the shipyard workers, who said, "I

withdraw my salary from my account before 12 p.m. on the day it is paid. This way, I avoid the bank allocating a part of my wages in response to my credit card debt. This is something that I learned from a friend who works in a bank" (Questionnaire #208). Second, it also leads to an increase in the control of capital over labour by creating room for banks and employers to negotiate credit repayment without the worker being present. As it was pointed out during one of the interviews, when a worker is not able to repay credit card debt, a banker may call the employer to confirm that the person is an employee, and then ask about the employment situation of the worker in order to find out if the worker can make repayments. If the employer acknowledges and confirms this information, then the bank may postpone starting a lawsuit. In this way, the debt and legal ramifications become a matter of negotiation between the employer and banker. A key point here to consider is how this action of an employer protecting a worker in the case of insolvency is likely to function as a mechanism for strengthening the worker's sense of obligation and responsibility to the employer.

The survey also sought to understand the main reasons for not having a bank account. Of the 17% of the respondents who responded that they did not have a bank account, an almost equal proportion of participants (36%) reported the main reasons as either not having money to open a bank account or not needing a bank account. The results indicate that the low level of savings could be the most important reason for not having a relationship with a bank. As 12% of respondents reported that they did not trust banks, this might also be a determinant to avoid banks.

Nevertheless, as Figure 7.8 shows, the majority of respondents use bank accounts to access their salaries. The use of other bank services other than withdrawing money, such as automatic payments and Internet banking, is very low. This indicates that workers are less likely to adopt new ways of banking. Also, it is reasonable to assume that they are less likely to have access to the Internet, given their socioeconomic conditions.

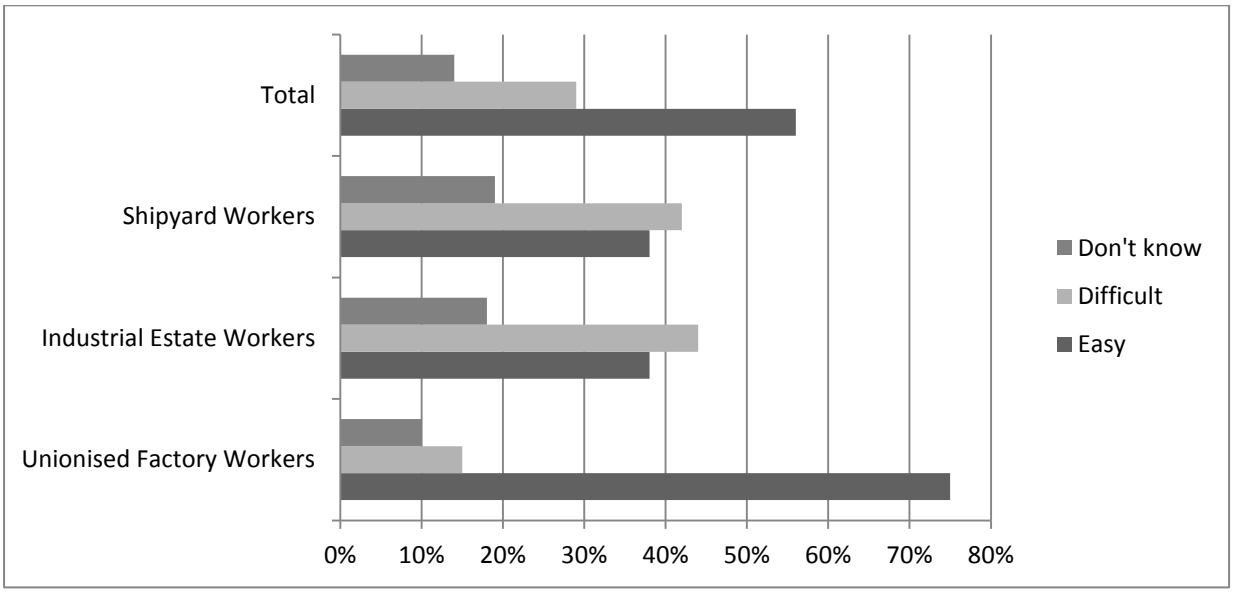
Figure 7.8: Question: Why Do You Use Banking Services?



Another point to consider relevant to the discussion of banking access is whether holding a bank account can be seen as an indicator of financial inclusion, as often argued. The observations from the fieldwork suggest that, although having a bank account is an important factor leading to access to other financial services, it does not indicate financial inclusion by itself. There are other factors which should be considered, such as availability of credit at a reasonable price. In spite of having bank accounts, workers who have less secure work conditions might still use high-cost credit. This is evident in the case of using credit cards instead of bank loans. This issue will be addressed in the next section in analysing participants' views on access to bank loans and use of banking services. At this point, it is enough to say that financial inclusion and exclusion seems to be more related to the costs of using bank services.

In response to questions on the ease of accessing bank loans, more than half of the respondents (56%) answered that it was easy. Their views, generally, were based on their own experiences (71%) and, to a lesser extent, on the experiences of others or media influence (see Figure 7.8).

Figure 7.9: Question: What Do You Think About Access to Bank Loans?



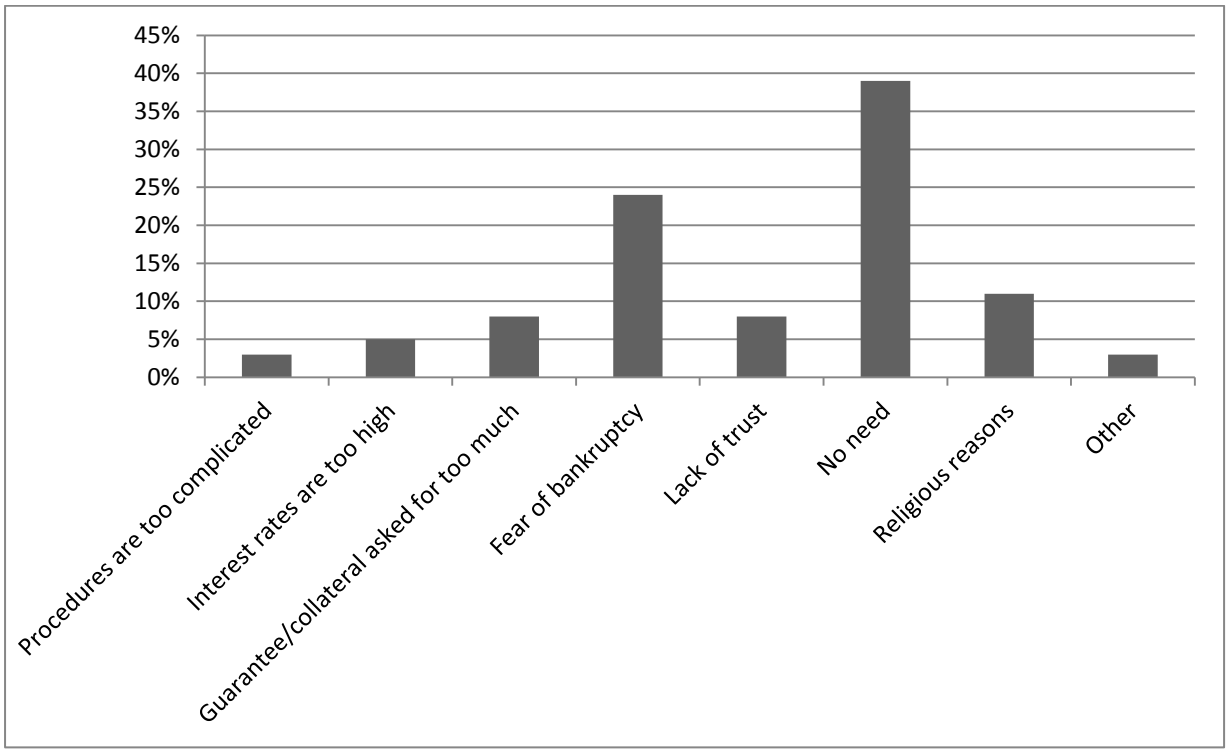
However, breaking down the responses into different work segments reveals some important insights regarding differences in viewpoints on accessing bank loans. As Figure 7.9 shows, while most of the unionized factory workers (75%) felt that it was easy to access bank credit, industrial estate and shipyard workers who shared the same opinion were low (38.2% and 38.5%, respectively). These differences are mostly related to each groups' employment conditions. The unionised factory workers can easily provide evidence of work, which is asked about during a loan application, because they are all registered to a social security institution and they receive their wages regularly via direct deposit. Thus, it is easier for them to take out loans. However, the situation is very different for industrial estate and shipyard workers.

For the industrial estate workers, their views that it is difficult to access bank loans might be due to their weaker relations with banks. As seen in the Figure 7.7, less than half of the industrial workers in the survey had bank accounts. The reasoning is likely to be different for shipyard workers because, as the same figure shows, the overwhelming majority of the shipyard workers (91%) do have bank accounts. As already mentioned, however, having a bank account does not imply financial inclusion, because it does not provide, by itself, access to a full range of financial services at reasonable prices. The statement of a shipyard worker clearly illustrates why getting a loan is difficult for him: "I have been working for 17 years and my social security premiums have not been paid even for 1,500 days. They (the banks) do not issue credit to us. One can take a bank loan if she or he pays their credit card debt without delay" (Questionnaire #211). Being casual employees, shipyard workers are more

exposed to underreporting of working days by employers. Further, the 2008 crisis seemed to aggravate this situation because expired contracts of some workers were not renewed, and they started to work on-call. For many of these workers, it has become impossible to provide the payroll accounts that prove their social security premiums have been paid for at least the last 6 months. Furthermore, with not being able to make their credit card payments regularly, a growing bad credit history further limits their capacity to meet the necessary criteria for taking out a bank loan. It is for this reason that shipyard workers use credit cards more often than bank loans. As will be presented in a subsequent section, shipyard workers take cash advances against their credit cards more frequently than the other two types of workers in this survey.

In order to have a better understanding of the obstacles that workers face in accessing bank loans, respondents were asked an array of questions on availability and use of bank credit. Thirty-one per cent of the respondents reported never having applied for a bank loan, with the main reasons being cited as not needing it (39%), followed by fear of bankruptcy (24%), and religious reasons (11%).

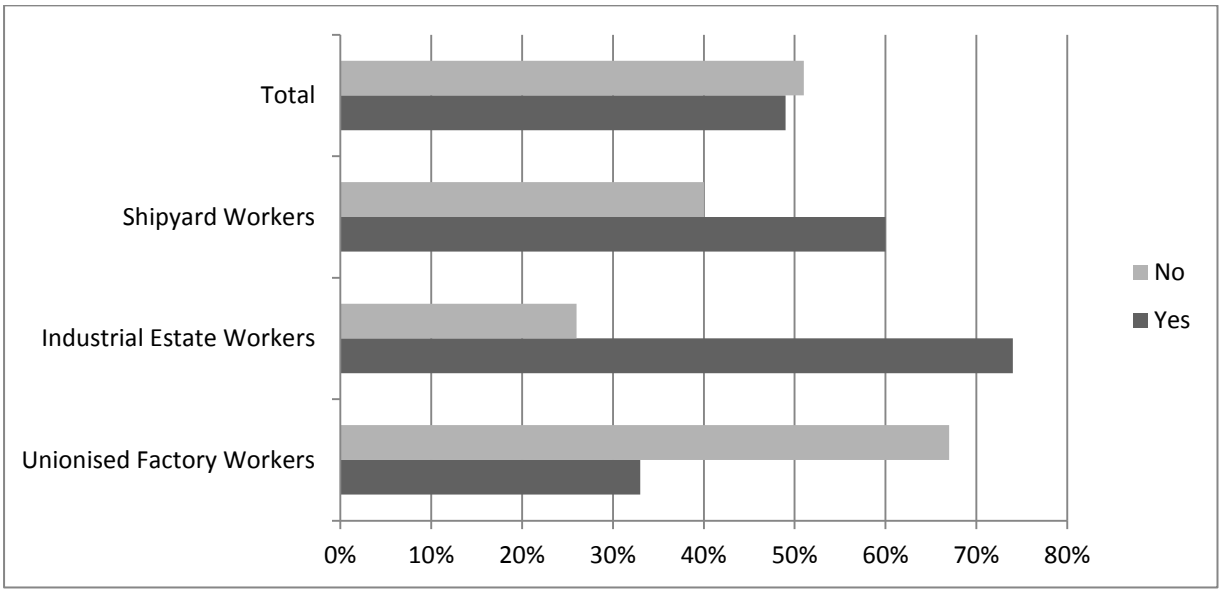
Figure 7.10: Question: What Are Your Reasons for Not Applying for a Bank Loan?



The survey also asked workers if they had ever been turned down for a bank loan. As can be seen from Figure 7.11, almost half of the respondents (49%) confirmed being denied.

As would be expected from the previous discussion, the ratio of respondents whose applications were turned down was higher among industrial estate and shipyard workers, who experienced more fluctuations in their income and therefore appeared to be greater risks for the banks.

Figure 7.11: Question: Have You Ever Had a Bank Loan Application Turned Down?



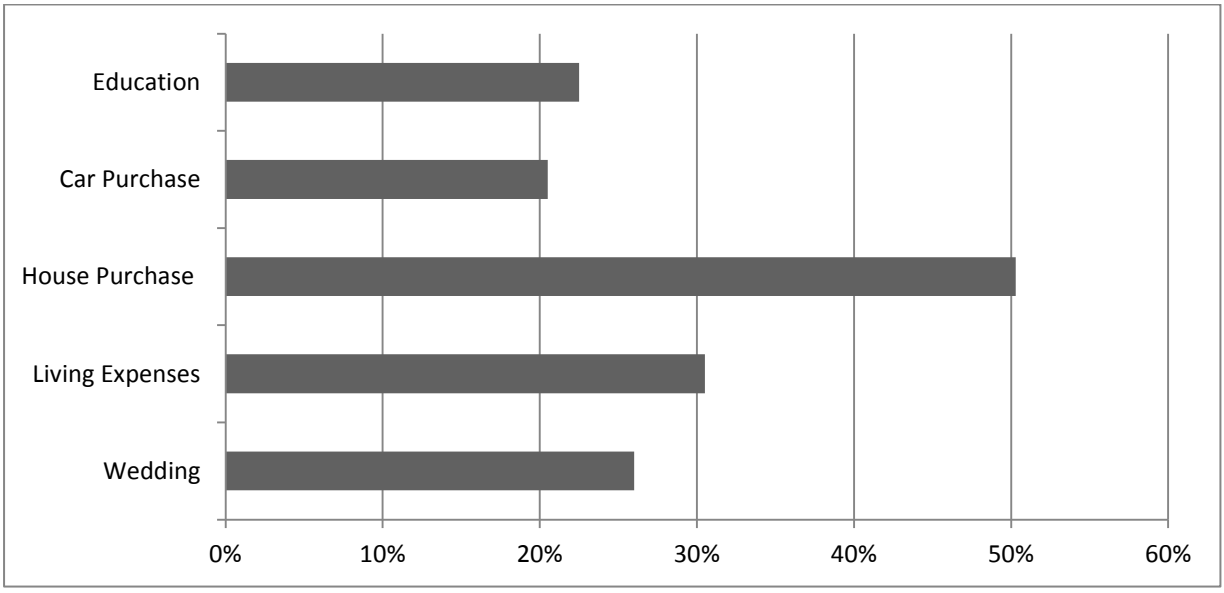
The main reasons cited for being rejected were bad credit history and a lack of collateral (40% each), followed by lack of financial documentation (16%), and no relationship with the bank (having no bank account) (5%).

To those who reported that their bank loan applications were turned down, a second question was asked if they had tried to get a loan elsewhere. Forty-three per cent of the respondents reported that they had tried again. A key point to consider here is whether such a credit restriction led the participants to borrow from high-cost lenders such as usurers and pawnshops. The results suggest that there is little evidence that being rejected by a bank forced people to borrow less desirable forms of credit. When respondents were asked to specify the institution they applied to after being rejected by a bank, they generally stated that they applied to another bank to get a loan.

7.6 Bank Loans

As reported in Section 7.4, the most mentioned type of debt is bank credit (see Figure 7.4). One of the goals of the questionnaire was to understand workers' perceptions towards the appropriate use of bank loans. In order to assess this, the participants were asked whether it was appropriate to borrow for certain purposes, namely, education expenses, purchase of a car or home, living expenses, and weddings. The most accepted reason for using credit was reported as purchasing a house (50%).

Figure 7.12: Question: Do You Think It is Alright to Take Out Bank Loans for Certain Purposes?



However, workers' preferences about taking loans for a house purchase do not match their actual borrowing patterns: the number of participants who took out house loans is negligible (see Figure 7.13). This indicates that although workers have a favourable attitude towards credit use to buy a house, they do not have the means for it. Most housing needs among low-income people in Turkey are met through the construction of unauthorized dwellings in squatter settlements. Further, although participants in general had a favourable attitude towards using home loans, lack of trust might be another important reason for the small number of people who actually use such loans. As discussed in the theoretical framework of this dissertation, trust is an important determinant in committing to long-term house payments. In this sense, arguably, the lack of a financial infrastructure for a developed mortgage market in Turkey leads to lack of trust among borrowers.

It was striking to note that, although there was not an option of "none" in the choices, 19.3% of the respondents reported that taking out loan is never appropriate for any purpose (which was noted on the questionnaire forms). This demonstrated the strong negative attitudes of some participants towards bank loans.

Participants were asked whether they currently had any bank loans; 41% of the participants stated that they did. The ratio of bank loan users is 56% among the indebted participants (Figure 7.4). Strikingly, the overwhelming majority of those with bank loans (82%) stated that theirs was in the form of personal loans. The percentage of participants who took home and car loans was found to be small. While 17% of the respondents reported having car loans, only 4% answered that they had home loans. Unsurprisingly, the majority of the home and car loan users (71%) were found to be unionised factory workers with regular income.

While the reasons for taking car and home loans are obvious, it is not the case for personal loans. One of the main objectives of the survey was to find out the reasons for personal loan use among workers.[129] As Figure 7.14 illustrates, nearly half of the respondents (49%) who had taken out such loans stated that they did so to make payments on other loans. In most instances, these other debts were rent or loans from another bank. In addition to this, 12% of the respondents reported their reason for taking out a personal loan was payment of credit card debt.

[129] While the quantitative study gives an overall understanding for the reasons behind personal loan use (credit card payments and payments of other debts), the qualitative analysis, in Chapter 8, provides further insights into the underlying structural reasons for taking out bank loans.

Figure 7.13: Question: What Are Your Reasons for Taking Out A Personal Loan(s) from a Bank?

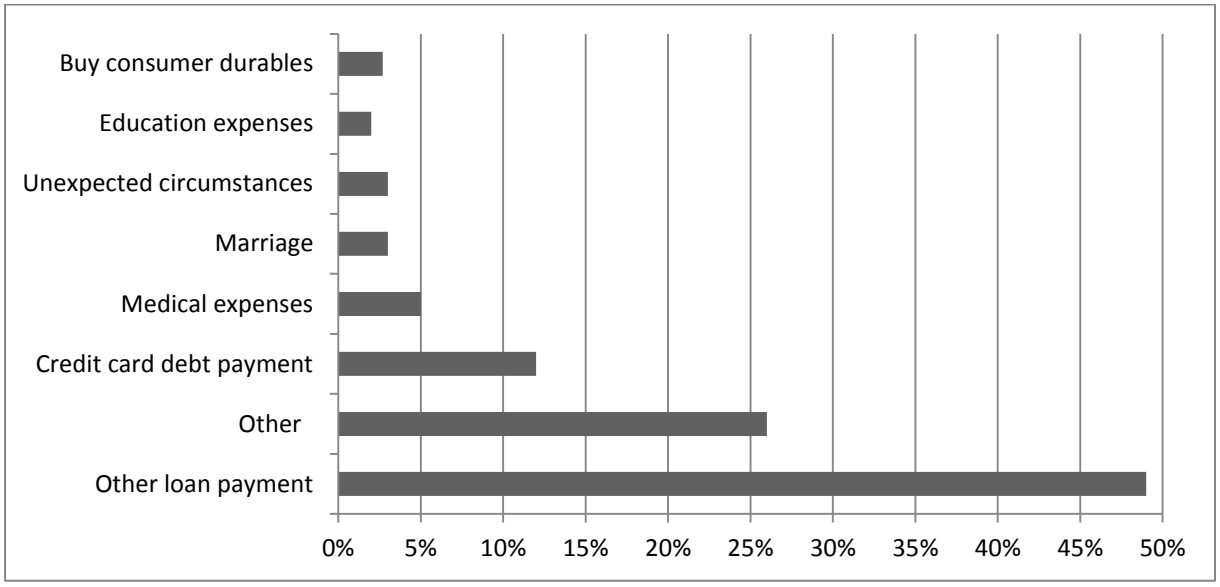


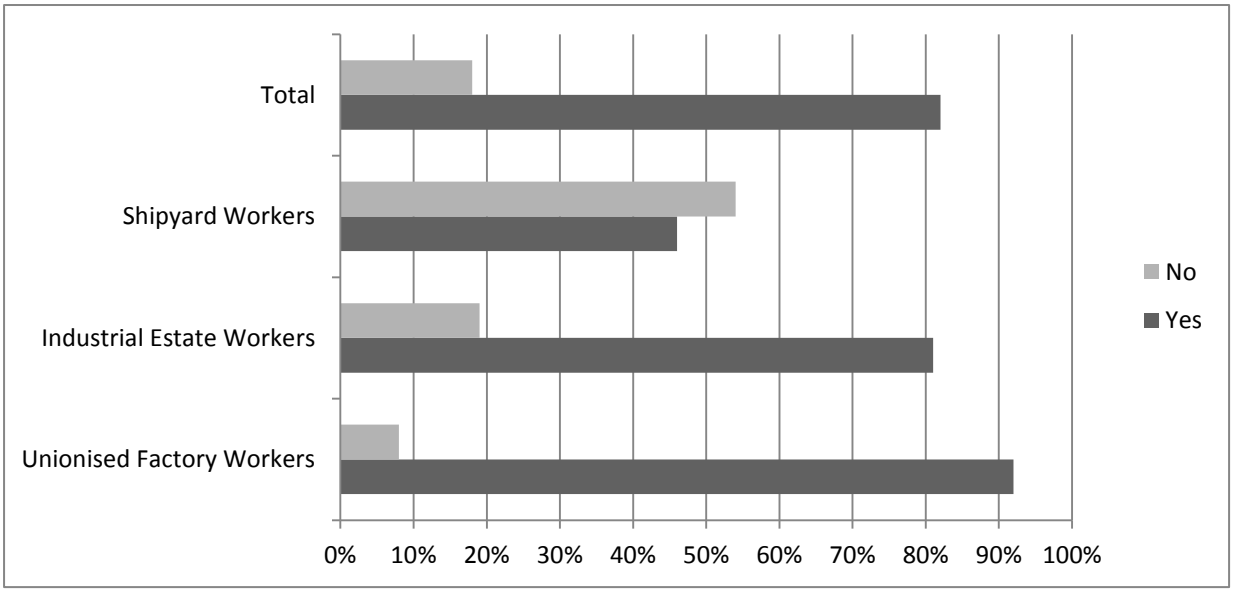
Figure 7.13 is quite revealing in several ways. First, the most striking was that workers found themselves extending or rolling over loans repeatedly, resulting in escalating debt. With the high incidence of roll over, it was not surprising that many participants found themselves in a vicious cycle of borrowing–further debt–borrowing, from which any exit seemed impossible. Chapter 8 presents a detailed analysis of specific cases of this situation.

Second, it exhibits contradictory findings in relation to the official arguments put forward for the reasons behind the rise in demand for consumer credit. As discussed in Chapter 1, one of the most common arguments regarding the substantial rise in consumer credit debt in Turkey is the increasing demand for consumer durables. Although there may well be some truth to this, especially in relation to the borrowing of the middle- and high-income segments of society, the findings from the fieldwork suggest that the use of consumer loans for consumer durables is very low, at only 3%, among workers in the survey.

A point needs to be clarified regarding Figure 7.13's category of Other. Notes taken from the filled-in questionnaires reveal that this category refers mostly to the use of personal loans for building a house, purchasing a car, or starting a business. Personal loans are generally used for such purposes when the necessary funding is small. For instance, it was observed that participants who use personal loans for housing often use the funding to buy construction equipment, and then build the house themselves, and the most common types of these constructions are dwellings in squatter settlements.

The questionnaires also sought to understand whether the participants' bank loan payments were up to date (see Figure 7.14). The overall response to this question was positive, with the majority of the respondents stating that their bank loan payments were current. However, there were some differences among three groups of workers. More than half of the shipyard workers who had taken out a bank loan found it difficult to pay their loan instalments on time (54%). This is very much related to their severe decline in working hours and daily wages in the aftermath of the 2008 global crisis.

Figure 7.14: Question: Are Your Bank Loan Payments Up to Date?



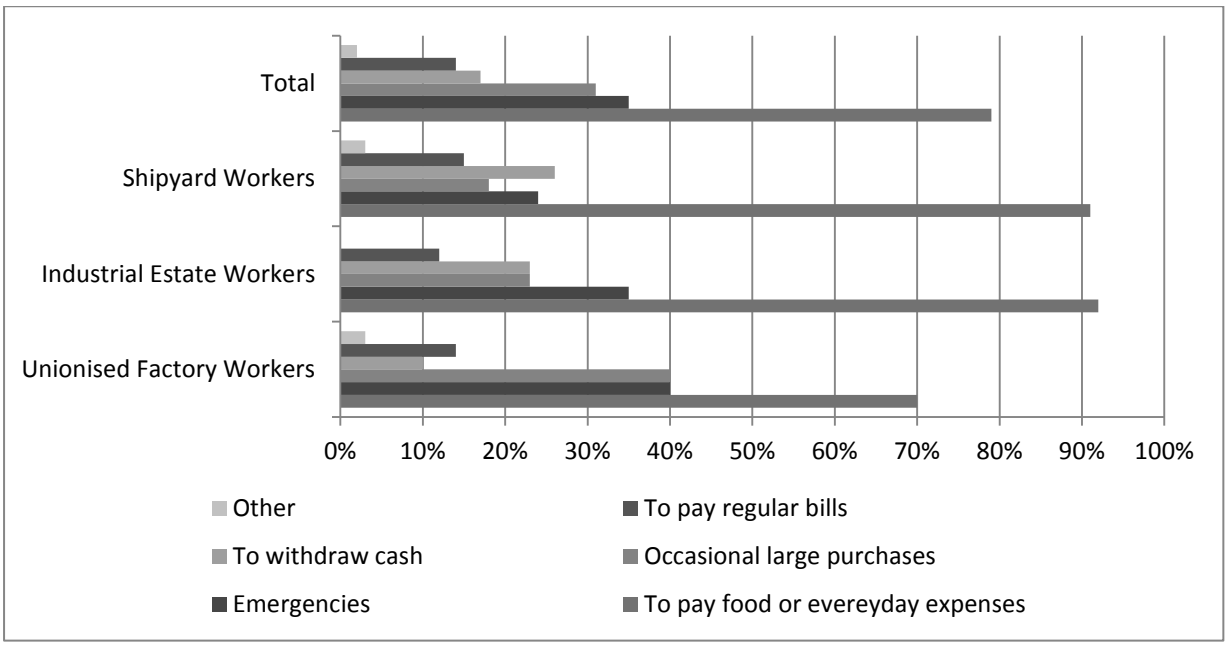
7.7 Credit Cards

Participants were also asked questions about their credit card usage. Sixty-seven per cent of the participants reported having at least one credit card, with 32% having two or more. Although 33% reported not having any credit cards, many of these workers added that they previously owned credit cards, but due to bad credit histories the cards had been cancelled. It was striking to observe that among these workers who defaulted on their credit cards, there was a tendency to view this optimistically. As expressed by one of them: "I will not be able to possess a credit card for 5 years. This is better since I have no capacity to pay credit card debt" (Questionnaire #222).

The most frequently mentioned reasons for using credit cards were: to pay for food or daily expenses (79%), emergencies (35%), and occasional large purchases (31%); a smaller

percentage of respondents (14%) also reported using credit cards to pay recurring bills (see Figure 7.15). The results suggest that a significant number of workers use credit cards to meet day-to-day expenses. Industrial estate and shipyard workers have a greater tendency to use credit cards for daily expenses (92% and 91%, respectively). This is related to their need to defer payments during income fluctuations. As such, respondents with low and unstable incomes often use credit cards as wage substitution. An industrial estate worker put this clearly when he said in an interview, "When my salary is paid 20 days late, I am obliged to use a credit card".

Figure 7.15: Question: What Are Your Reasons For Using Credit Cards?



Apart from using credit cards to pay for living expenses, participants also reported that they used it as a borrowing device via cash withdrawals. This is problematic since credit cards were not designed for this purpose, and using credit cards this way becomes a very expensive way of borrowing. The evidence shows that such withdrawals are more common among industrial estate and shipyard workers. As already mentioned, unionised workers, with more secure working conditions, have better access to bank loans, so they prefer not to withdraw money from credit cards because of the high fees. For industrial estate and shipyard workers, however, who have less access to bank services, cash withdrawals from credit cards substitute for bank loans.

This frequent use of credit cards by workers means accumulating outstanding debt, and 22.7% of those surveyed indicated that they had outstanding credit card debt. This ratio is

30% among the credit card users. Six participants had had their credit cards cancelled, so while they reported not having credit cards, they were still in the midst of paying off outstanding credit card debt.

When participants were asked about credit card balances, less than half of the credit holders (45%) claimed to repay the full balance on their credit cards each month, 22% reported paying what they could afford, and 29% reported making only the minimum payment. Four per cent said that they could not pay on their credit cards at all, and hence rolled over the entire debt plus interest owed.

Paying by credit cards might offer the convenience of "buy now, pay later" and allow consumers to smooth their consumption expenditures, especially during periods of income fluctuations. The point to consider here is that under different socioeconomic conditions, credit card use might have different results. Those consumers with secure incomes are more likely to repay the full outstanding balance and thus avoid interest payments. The interest charged on these credit cards then either does not exist or is minimal. However, the discussion here is about the increasing and on-going use of credit cards by workers with low paying jobs in insecure job markets. A statement by a shipyard worker demonstrated this when he told, "I have credit card debt. If one has a regular job, then credit card is a useful tool. But, here, a job is like a fish in the sea that you try to catch. I worked for one and a half month, it has now been 3 months, and I still have not received my money" (Questionnaire #211). Hence, job and income insecurity make those workers most vulnerable to debt. Indeed, they are the ones who carry the burden of high interest fees on credit cards, because using credit cards as an income substitute, yet not being able to make timely payments, means accumulating outstanding balances and spiralling debt.

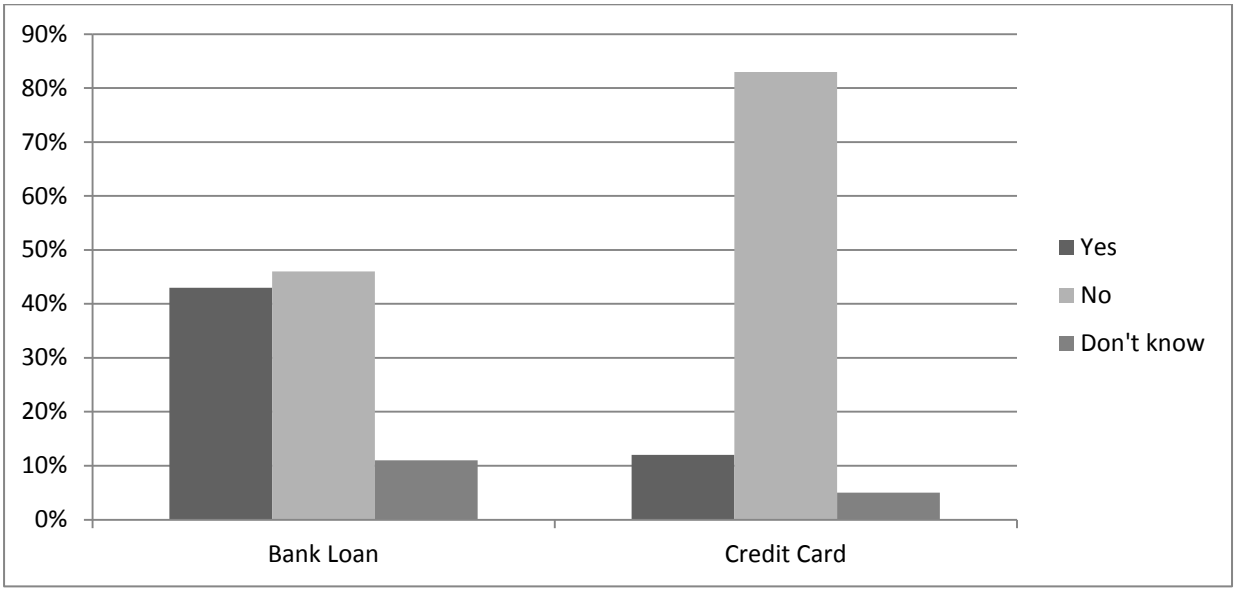
In Turkey, legal action starts against borrowers who do not pay their debt within 90 days. There were many respondents in this predicament, and they faced increasing financial penalties. Some of them were able to have their credit card debt restructured. A point to consider here is that although instalment payments might be relatively small, they were still a high proportion of workers' income. Wrote one respondent: "I had a 750 TL credit card limit. I accumulated 1,500 TL debt. [It had been restructured]. If I made a deal for 36 months instalments, I could pay 30 to 35 TL per month. But the monthly instalment was 96 TL and I still could not pay it" (Questionnaire #223). A similar account was given by : "I could not pay the 1,150 TL debt that was restructured at the end of May. Now [in July] the debt reached 2,200 TL. I was taken to court for this debt, and now one-fourth of my salary is being deducted directly for the debt payment" (Questionnaire #180). So even with debt

restructuring, low-paid or temporary workers still had difficulty paying even smaller monthly payments. This indicates the importance of addressing the structural problems in the labour market. Without providing sufficiently paid, secure jobs, it is impossible to prevent these types of problems within the consumer credit card market.

7.8 Financial Capability and Literacy

It is general claim that informational problems in the consumer credit market are partly related to inadequate levels of financial literacy on the part of borrowers. According to this view, this may result in situations in which many people do not act rationally, so they run in trouble. This section seeks to assess the average level of financial literacy and capability of the participants, how they engaged in financial decision making in the consumer credit market, and what factors they considered in pursuing credit. To begin this inquiry, respondents were first asked whether they had compared rates and fees on different consumer loans and credit cards before they applied for a credit. Forty-three per cent reported that they had made a comparison before applying for a bank loan, while 46% stated that they had not. The remainder of the respondents reported that they could not remember whether they had made this comparison. In terms of credit cards comparisons, the majority of the respondents (83%) had not compared rates on different credit cards (see Figure 7.16).

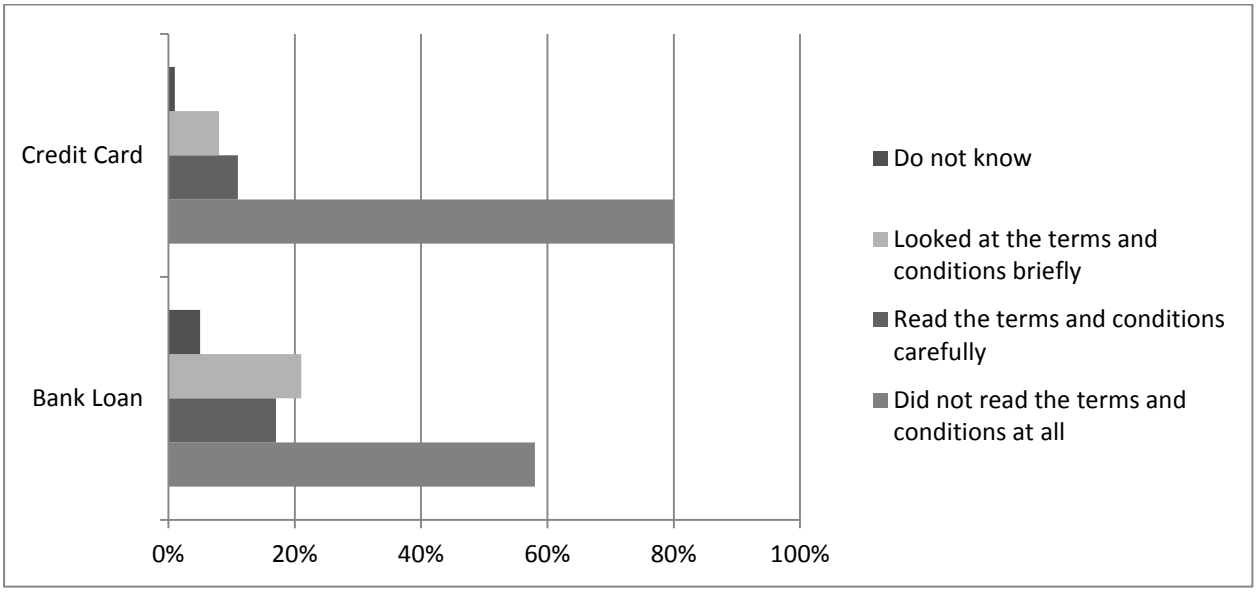
Figure 7.16: Question: Did You Compare Interest Rates and Fees Before Applying for Credit?



The questionnaire also investigated the participants' knowledge of bank loans and credit cards in terms of interest rates. The reason for asking these questions was to gauge whether workers were conscious of the interest rates being charged on their loans and credit cards. Many informants had difficulty in answering these questions. Of the 84 respondents with consumer loans, 47% reported that they knew their interest rate, which ranged between 0.5% and 2.5%. It is difficult to generically compare published bank rates with the reported ones, since consumer loans differs according to many criteria such as the type of loan and number of instalments. Among total credit card users (152 respondents), only 28.3% (43 respondents) reported that they knew their credit card's interest rate, and 16.5% (25 respondents) said that they knew the default interest rate on the credit card they used most often. Those who reported that they knew were asked to provide the rates. The range of figures for both the current and default interest rates bore a close resemblance to many of the card issuers' actual interest rates at the time of the study, suggesting that respondents had true knowledge. However, the data reveal that the ratio of respondents who knew their interest rates was very low among the credit card-user participants.

Participants were also asked whether they had read the terms and conditions of the agreements for consumer loans and credit cards they obtained. As seen in Figure 7.17, 58% of respondents with bank loans reported that they had never the read terms and conditions. Regarding credit cards, most of the respondents (80%) reported never reading the terms and conditions. The data reveal that the majority of the respondents, 91%, did not have a copy of the credit card contract with their bank.

Figure 7.17: Question: Do You Know the Terms and Conditions of Your Borrowed Credit?

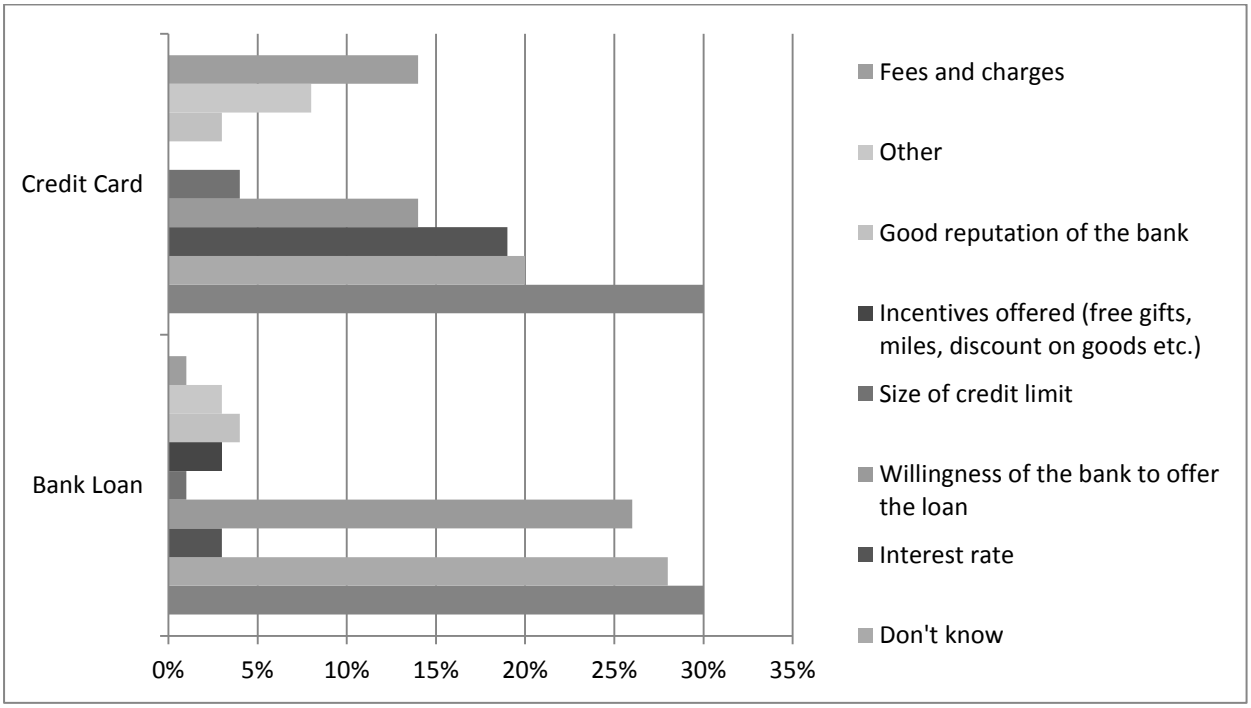


The results regarding the number of participants who did not read the terms and conditions must be interpreted with caution because this does not necessarily imply financial illiteracy on the participants. It is in part related to the complexity and extreme length of contracts which participants find impossible to read (which is certainly affected by the low education level of some participants). The socioeconomic conditions of these workers played a role, too. The statement of a shipyard worker illustrates very well the circumstance under which contracts could be signed: "It is not possible even to read the agreement. Besides, you do not have time for it. The man hands over the document, and since you need it [the loan], you sign the contract. They come during the lunch breaks" (Questionnaire #173). Besides revealing the length of contracts, this statement also revealed that being in a position of need made a borrower more easily and blindly accept the terms and conditions offered. To recap, under weak socioeconomic conditions, and in some cases lack of educational skills, workers are weaker in power in their relationship with banks, and so are unable to enforce their rights. Conversely, technological advances, innovation in financial services give banks an advantage in their relations with individual customers. It appears that banks are making things more complicated in order to benefit from these workers, adding imbalance to this relationship.

If the respondents had a tendency to not compare interest rates or read the terms of a contract, then on what did they base their credit and lender decisions? To address this question, participants were first asked, "What was it about the loan (or credit card) that made you choose it?" As seen in Figure 7.18, equal percentages (30%) of respondents reported

using the same bank where they have previously done business. In terms of credit cards, the willingness of the bank to offer the credit (20%) and favourable interest rates (19%) were considered as other major factors. Only a small proportion of respondents (4%) reported that incentives such as bonuses and miles were determinants in choosing the credit cards they owned. Regarding bank loans, the willingness of the bank to offer the loan was once again reported as an important factor (26%). Strikingly, 20% of the respondents for credit cards, and 28% for bank loans, reported that they did not know what affected their decision (see Figure 7.18).

Figure 7.18: Question: What Factors Affected Your Decision in Selecting a Specific Bank Loan or Credit Card?

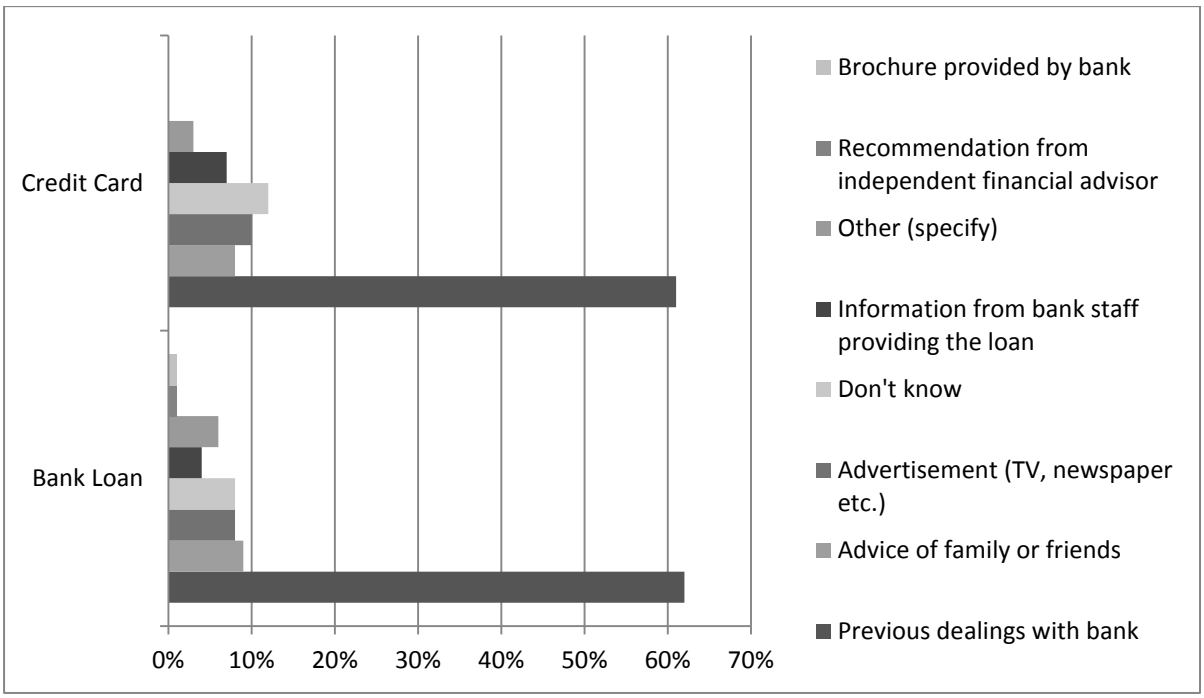


These results suggest that participants did not generally decide on which credit card or bank loan to use by considering the advantages or disadvantages of one over another. Respondents either preferred to obtain credit from a bank with which they had previous experience or they did not know why they applied for one credit card or loan over another.

Second, participants were asked about the factors that most influenced their decision in choosing the bank from where they obtained their loan. As seen in Figure 7.19, the most important factor for respondents in selecting which bank to use for either bank loans or credit cards was again reported as having had previous experience with a particular bank (62% for bank loans and 61% for credit cards). The advices of family and friends or advertisements

were also found to have some impact on deciding which bank to select, though this importance were found to be limited (see Figure 7.19).

Figure 7.19: Question: What Were the Factors Affecting Your Decision in Selecting A Bank?



In sum, the results indicate that participants generally continued their business with banks that they previously used, and it was usually a bank where workers had their bank accounts. This sheds light on the reasons for the fierce competition among banks in acquiring the right to deliver wages. It is a common banking practice that once a worker opens a bank account, a credit card is automatically sent to his or her home address or workplace without consent. With that, I now turn attention to the evidence showing how participants came to possess credit cards.

Participants were asked how credit cards entered their lives. Because some of the respondents had more than one card, they were allowed to give multiple answers. The statistics show that 61% of the respondents stated that their credit cards were sent without consent; 40% reported that they possessed credit cards by applying to a bank; and 11% stated that they possessed credit cards from elsewhere, such as streets vendors and retail stores.

Workers also obtained credit directly from bank officers who went to the workplaces to specifically market credit cards and bank loans during lunch breaks. As reported by one of the industrial estate workers:

> I was walking to workplace, and a bank officer came and asked whether I needed a bank loan. At the time, I was behind with my payments for a loan that I had previously taken out. I told him the situation. He suggested that I get a new loan from the bank where he worked and told me that he could transfer this loan to the bank where I was indebted. I accepted. I did not do anything. The bank issued a loan to me and immediately transferred it to the other bank. (Questionnaire, #118)

As the example illustrates, banks benefitted from opportunities to directly approach workers at work and by providing an easy way to accept credit. Debts tend to be cumulative because lenders routinely offer wage earners ever more credit even as they struggle to make payments on old debt.

It should be noted that Turkey's relatively new consumer credit market remains unsaturated so there continues to be intense competition among banks to increase their shares in the market. Banks often deliver credit cards without considering the repayment capability of the consumers. They have a tendency to target consumers who need and will want credit, as it is evident in their strong efforts to market their products at factories, industrial estates, and shipyards. Many of the participants reported that they were unhappy with the aggressive marketing strategies of banks. As a matter of fact, on a few occasions when I entered the workplace, some of the workers assumed that I was a bank official and refused to talk to me, stating that they did not want any loans or credit cards. This observation shows that many workers find themselves frustrated and disturbed with the aggressive marketing strategies of the banks.

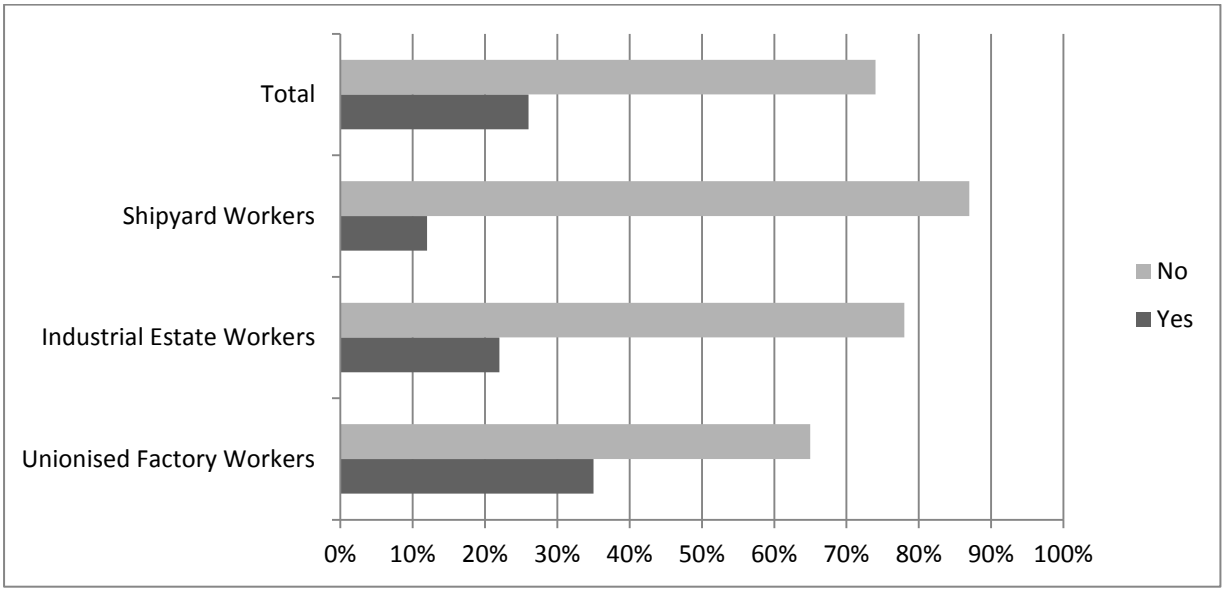
7.9 Savings and Retirement

The final part of the survey sought to understand the saving patterns of the participants. It also addressed workers' expectations about pension income and their level of confidence regarding their future financial situation in retirement.

The results (see Figure 7.20) show that the number of participants who save was small (26%). The ratio of those surveyed who had savings was highest among the unionised factory workers. It can be assumed that since they have relatively stable wages, their saving capacity is higher. Nevertheless, even among these workers, the proportion of participants who saved any earnings is still small (35%). Given the high level of indebtedness across all three

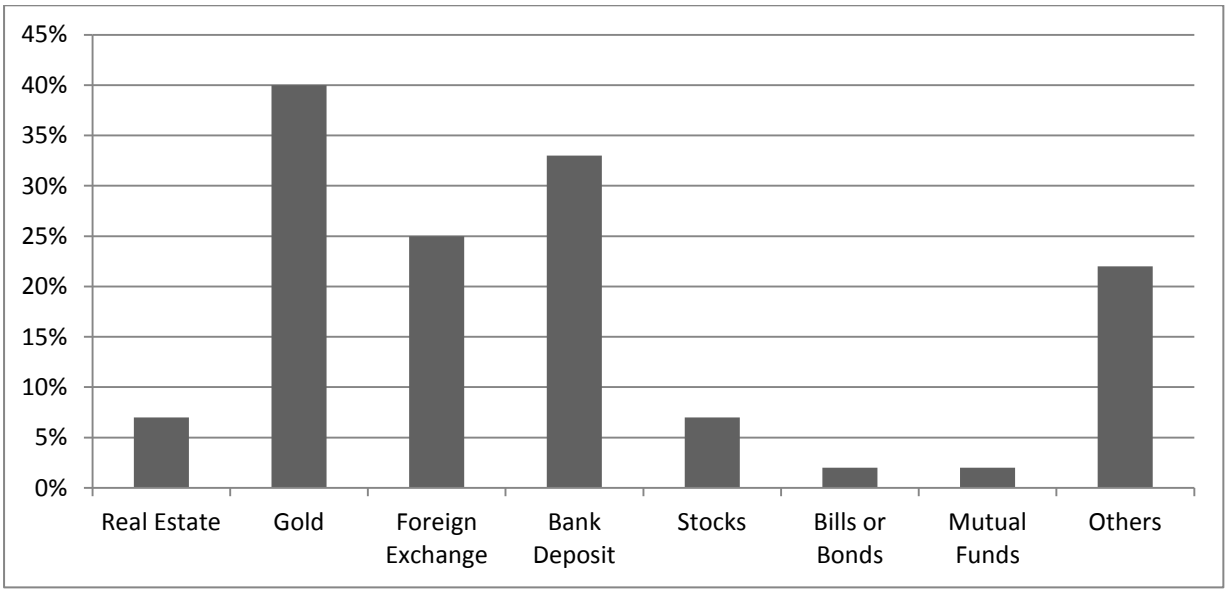
categories of work, it is not surprising to find the savings capacity of the participants is low in general. These findings suggest that saving any money is perceived as difficult or impossible, especially for those with low-level incomes. Some of the respondents hesitated to admit that they had any savings since it was such small amounts (less than one month's income in many instances).

Figure 7.20: Question: Do You Have Any Savings?



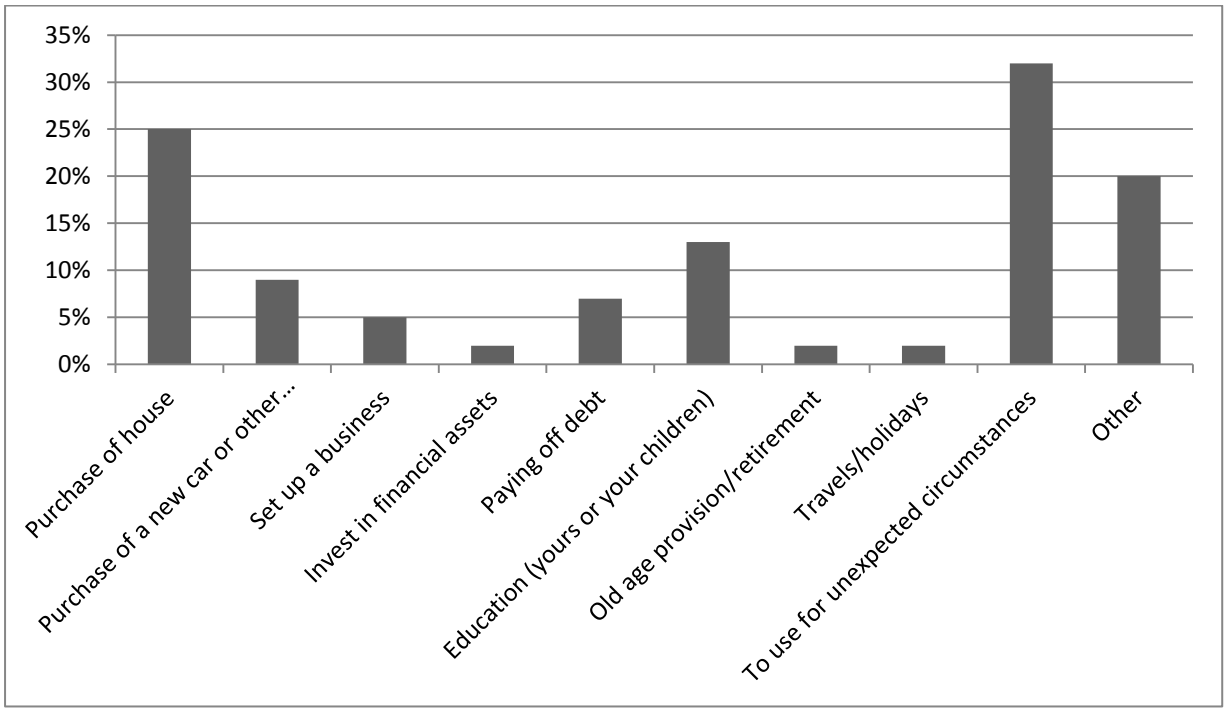
Those who had savings (see Figure 7.21) reported that they mainly held it either in gold, bank deposits, or, sometimes, in foreign currency. This finding suggests that workers with savings rely on traditional forms of saving. More modern forms, such as bills, bonds, stocks, and mutual funds, were reported to have negligible shares in workers' portfolios. Based on this data, it is safe to argue that as opposed to workers in advanced countries, wage earners' savings in Turkey have not gone into acquiring financial assets.

Figure 7.21: Question: What Types of Savings Do You Own?



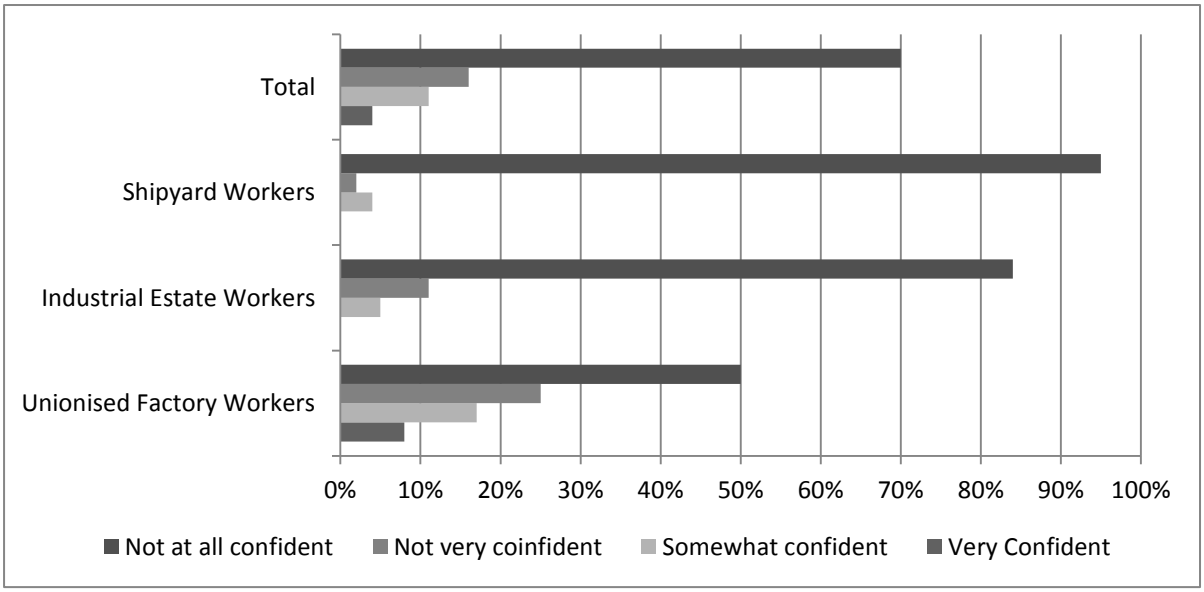
Another survey question asked was about purposes of savings, and 32% of those who reported that they saved for emergencies while 25% indicated saving for purchasing a house. Since rent is a significant burden on workers' budgets, and given that 48% of the participants are renters, it is predictable that owing a house is an important concern among participants. See Figure 7.22 for this analysis.

Figure 7.22: Question: For What Purposes Do You Save?



As regards the expectations about sources of pension, the overwhelming majority of the survey respondents (96%) indicated expecting their retirement income to come mainly from government-run social security institutions. Considering the high ratio of indebtedness and low levels of savings among those surveyed, it is not surprising that the majority of the respondents did not believe that their financial situation at retirement would be adequate (see Figure 7.23).

Figure 7.23: Question: How Confident Are You About Your Future Financial Situation at Retirement?



Also not surprising, the evidence showed that the majority of those respondents who reported being somewhat or very confident about their financial situations in retirement were unionised factory workers. In addition to greater job security, their social security payments made by the employers are frequently more accurate and made on a regular basis.

7.10 Survey Findings Regarding Women Participants

Since the sample size for women in this research is limited (14% of total respondents), it is not possible to make a reliable comparison between the men and women. Because of this, it was decided that some of the key findings concerning women were best given separately.[130] The majority of women in the sample work in factories (87%), and the

[130] The linkages between finance and gender in Turkey require a more detailed analysis and a separate approach, both of which are outside the scope of this dissertation.

rest work in industrial estates. As stated previously, no women are employed in the shipyards. It is a well-established fact in the literature that women are more likely to occupy positions lower down in the occupational status hierarchy and that their wage rates are considerably lower than that of men. The fieldwork data are no exception to this these findings. Regarding the jobs they perform, most of the women participants were machine assemblers (71%). The average wage of the women in the sample was significantly lower than that of the men. The average wages of the female workers in factories and industrial estates were 854 TL and 750 TL, respectively, while the same figures were 1,419 TL and 882 TL, respectively, for the men.

Except for three women, all the female participants reported having bank accounts. Given that their wages are deposited into bank accounts, in general, this result is not surprising. All three of the women without bank accounts are industrial estate workers, and two were not even registered to a social security institution. One of the findings that emerged from the fieldwork was that a large proportion of female workers in industrial estates were working in a relative's business. Indeed, acquiring labour through familial and kinship relationships is a common practice in small manufacturing enterprises in Turkey. This might be related to the fact that employers find it an easy way to locate cheap and flexible labour.

One of the most striking, though not unexpected, observations from the fieldwork was that being in debt increased the likelihood of women entering the labour force. For instance, one survey participant, a married woman working in an industrial estate, stated rather shyly that not only did they have debt on four credit cards, but they were under legal action on all four of them. When her husband was unemployed for 8 months during the 2008 crisis, they lived on these credit cards, thus accumulating a considerable amount of debt. Although her husband found a job eventually, she also started to work in order to help repay the debt. It was not only women telling me such narratives. A shipyard worker told me that after his own business went bankrupt during the 2008 crisis, he could not pay his debt. He started to work in a shipyard while his wife and daughter each started to work in a factory.[131]

Observations from the fieldwork suggest that indebtedness stimulated the women's entrance into the labour market. This matches official statistics, which showed that the 2008 crisis in general increased women's participation in the labour force in Turkey (see below). Crises in general can be expected to affect women's entrance into and departure from the labour force. For instance, a crisis might lead to a reduction in female employment because

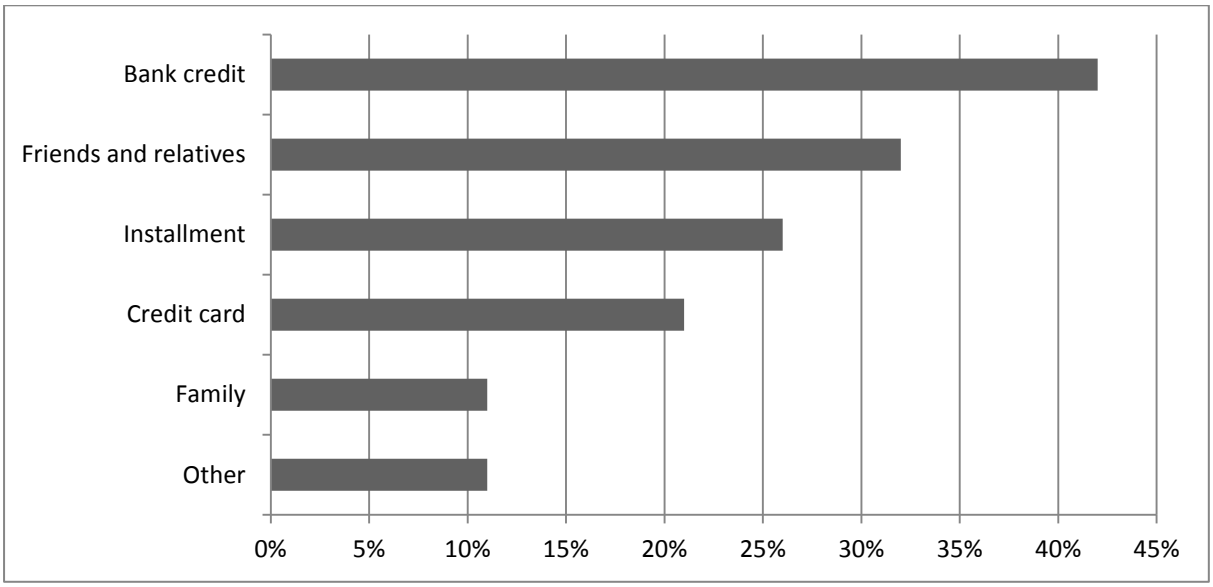
[131] The Case Study #4 in the next chapter also illustrates an example of women entering the workforce as a result of indebtedness.

women in general work in flexible and low-paying jobs, and thus can be easily laid off. Alternatively, crises might lead to an increase in the demand for a flexible and cheap workforce, creating space for women to enter the labour force. In the case of Turkey, evidence shows the 2008 crisis led to an increase in female participation in labour force. According to a report released by the Foundation for Social Researches (SAV, 2010), trends in the labour force (male versus female workers) changed significantly as a result of the crisis. Between 2004 and 2007, out of every 100 people who entered into the labour force, 73 were men and 27 were women. However, as the 2008 global crisis hit the Turkish economy, between September 2008 and September 2010, out of every 100 who entered into the labour force, 57 were women and 43 were men (SAV, 2010). By the end of 2007, 23.6% of the workforce was women, and it reached 27.7% by the end of 2010. The larger relative impact of the crisis on male workers is mainly because the industries that were most affected by the crisis, including construction, shipbuilding, and automotive, are characterized by high shares of male employment

On that basis, it can be suggested that official data indirectly supports the argument of this dissertation relating to female workers. I could postulate that many households that faced job or income losses during the 2008 crisis fell into insolvency and could not service their debt burden. This crisis then created new job opportunities that women, specifically, were preferable because they are seen as cheap and flexible labour. Female income then became a source for the repayment of debt obligations. This may well explain the link between growing debt and increased female participation in the labour force.

Returning to the questionnaire results, the data, not surprisingly, found that indebtedness was also widespread among female participants. Sixty-one per cent of the women reported having some type of debt. Of the married women (77% of the sample), 63% were indebted. Only 4 of the single women reported having debt, which consisted of money owed for goods, father's debt to the retirement fund or money owed to the Housing Development Administration of Turkey (TOKI). The distribution of types of debt for all women in the sample is in Figure 7.24.

Figure 7.24: Types of Debts Owed By Female Participants



While the arrears in bank loans is again the most common type of debt (42%) for the whole sample, informal borrowing from family (11%) and from friends and relatives (32%) are also high among women participants.

The survey results indicate that credit card use was also common among women workers. Sixty-one per cent of the women reported having at least one credit card and 32% said that they had two or more credit cards. This result suggests that women workers were incorporated into the financial system to a great extent. However, one of the key findings was that their lack of knowledge concerning bank loan or credit card use is significant. For instance, when they were asked detailed information about the credit card they used (such as their total limit or interest rates) many of the women participants responded with "I do not know". This may be interpreted as women's weak power over the financial affairs of the family. Men often tend to be primary income-earners, but even if they are not, they more often act as the head of the household and have a greater say in household decisions.

7.11 Discussion of Survey Findings

The quantitative data collected in this research provide an account of metal workers' financial situations, the nature of their indebtedness, and their perceptions regarding their debt. Comparing differences in the extent and nature of indebtedness among three different groups of workers offers profound insights into the impact employment type has on indebtedness. There are five main findings from the survey.

First, survey results demonstrated that debt was widespread among metal workers, and that almost two thirds of the participants were in arrears. The most common type of debt was consumer credit (bank loans and credit cards), indicating that it had become a crucial element in the lives of metal workers in Turkey. As an expected consequence of having high level of debts, it was found that only a small proportion of participants could save any money. Moreover, those who saved mainly relied on traditional forms of savings such as gold, foreign currency, and bank deposits. These results suggest that, as opposed to advanced economies, the acquisition of financial assets has not been an important element of the financialisation of workers' income in Turkey.

Second, a prime goal of the research was to investigate the reasons behind the workers' use of credit, on which data is not available from official statistics. Evidence suggests that there is a discrepancy between the preferred reasons for taking out a bank loan and the actual use of it. Although the purchase of a home was reported to be the most preferred reason for taking out a bank loan, the results showed that, in reality, only a small proportion of the participants borrowed money to buy a house. The findings demonstrated that personal loans overwhelming constituted the majority of loans taken out by workers. Strikingly, more than half of the participants indicated that they took out a personal loan in order to make either other loan payments (such as rent and to pay debt on a loan from another bank) or to pay off credit card debt. This suggests that the debt of the workers in this research tended to be cumulative. Defaulting on one debt drove people into deeper debt as they took out more credit, making repayment even more unlikely. Two thirds of those who had bank loan stated that they were carrying too much debt and that they had trouble managing it. Regarding credit cards, less than half of the participants with credit cards reported that they could pay the full outstanding amount owed, which means most respondents were accumulating debt each month. As such, workers often found themselves repeatedly rolling over existing loans. The information on income and expenditures of participants supports this conclusion. According to the survey results, one third of the participants were unable to manage their budget, meaning that their expenditures usually exceeded their household income. The overwhelming majority of these people found it difficult to cope with this financial imbalance, and so borrowed more to make ends meet. This implies that salaries were insufficient to pay off existing debt, which led to a cycle of debt from which workers cannot escape. The analysis also demonstrates that given the high interest rates charged on credit cards, workers transfer a significant portion of their income to banks to make their

interest payments, which can be conceptualised as "financial expropriation", as was discussed in the chapter on the theoretical framework of this dissertation.

Third, one of the key contributions of the research is that it offers insights into the implications of different employment conditions on the nature and extent of indebtedness. The results from the survey demonstrate that an insecure labour market increases workers' vulnerability to debt, as evidenced by the high percentage of respondents working in shipyard and industrial estate who cannot make their bank loan payments on time; employment type on credit card use has the same effect. Although most of the participants had bank accounts and seemed to have access to various financial services, those who were casual employees and experiencing income insecurity were less likely to use bank loans. Since these workers do not have regular incomes, they were unlikely to meet the conditions needed to secure a bank loan. It is striking to see that out of necessity these workers often use credit cards as a substitute for bank loans. This is evident in the fact that industrial estate and shipyard workers more frequently withdraw cash from their credit cards as compared to unionised factory workers. In addition, industrial estate and shipyard workers, who face greater income instability, use credit cards more often to pay daily expenses. They use credit cards in the cases of short-term unemployment and late payment of wages. As a result, these workers were more often exposed to credit card problems both because of accumulating debt on it and using it as a borrowing device.

Fourth, survey results shed light on the decision-making processes of workers in choosing which credit cards and banks they use. Recent years have witnessed a greater emphasis on the necessity of increasing the financial literacy of borrowers in order to prevent problems in the consumer credit markets. Borrowers have often been accused of lacking sufficient financial literacy and, consequently, consumer credit problems are considered to be the result of borrowers' inability to plan and calculate their debt. The survey employed in this research sought to understand the financial capability of workers and the determinants in their financial decision-making processes. Evidence suggests that the majority of the respondents do not read the terms and conditions of the agreements on consumer loans or credit cards, nor do they compare the interest rates on loans or credit cards, showing that there is no efficient decision-making process in general. However, it is important to insert a caveat in interpreting these results. The fact that participants barely read and compare the terms and conditions is not necessarily because they are illiterate (though it is true to a certain extent). Rather, it is because they found little meaning in doing this. Encounters with bankers often occur when workers are in needy positions, and when there is little time to study the terms. Further, the

length and complexity of the contracts discourage borrowers from reading and evaluating them.

Evidence suggests that participants' bank, loan, and credit card decisions are predominated by the suppliers' sheer willingness to provide credit, and workers are often exposed to the aggressive marketing strategies of banks. Having established a relationship with a wage earner, a bank will take this opportunity to offer credit cards (frequently unsolicited) and bank loans to the account holder and even to his or her family. The desire for profits of the lenders, together with the needs of the workers, seems to stimulate borrowing. Too often this ends up with defaults and bankruptcies, especially for those who work in low-paid and insecure jobs.

Overall, this dissertation argues that arguments related to the financial illiteracy of borrowers reflect a profound ignorance of the socioeconomic and cultural conditions that shape and reinforce the financial decision-making process of borrowers. Further, one needs to consider that lender–borrower transactions are very much influenced by the unequal relationship between wage earners and financial institutions, as discussed in the previous chapters.

And finally, evidence from the fieldwork revealed some differences between male and female workers in terms of the use of credit and the effects of debt. Although the ratio of credit users is high among female workers, as it is with male workers, their knowledge regarding financial services is lower. As pointed out above, this could be related to the traditional behaviour of men controlling the family's financial resources and their dominance in decision-making in general. This may well explain the discrepancy between the increased access to and use of financial services by women, and their lower levels of financial literacy. Another important result was that consumer debt increased women's likelihood of entering into the labour force. Evidence suggested that as husbands found themselves unemployed, facing insecure labour market conditions, there emerged an urgent need to repay household accumulated debt by alternative sources of income. With the women entering the labour force, they could contribute to the repayment of their household's debt. Arguably then, the crisis conditions created room for the increased participation of women, although they were usually hired in low-paid and temporary positions.

Chapter 8: Findings of the Field Research on Workers' Indebtedness in Turkey: Analysis of the Qualitative Data

8.1 Introduction

The aim of this chapter is to offer insights into the evolving financial conditions of metal workers in Turkey and to explore the socioeconomic causes and consequences of the use of consumer credit by these workers. The descriptive analysis in the previous chapter showed that consumer credit is widespread among such workers. The quantitative method is useful in gathering information on several fronts, such as the financial situation of the metal workers, the types and characteristics of bank loans and credit cards they use, and their savings habits. It also allows for a comparison between the three different types of workers: unionised factory, industrial estates, and shipyards. Nevertheless, one needs to consider the limitations of quantitative data imposed by a design in which participants are given a set of predetermined possible answers. This might prevent understanding the complexity of people's lives and the contextual setting of their experiences. The limitations might also constitute a barrier in understanding deep-rooted factors affecting the analysed phenomenon.

In the context of this study, for instance, when the participants were asked about their *reasons* for taking out consumer loans, the most common answers related to paying off credit card debt and other loans. These answers, however, did not provide insights into the original triggering events that started their cycles of debt. Qualitative methodology, however, helped explore how these patterns emerged. The life stories method, in particular, captures the causes and consequences of an experience over periods of time, as discussed in presenting the methodological approach of this research in Chapter 2. This particular method serves well in this research's goal to figure out the deeply rooted structural causes of indebtedness. Furthermore, since life stories method focuses on revealing the evolving situations of an interviewee, it is also instrumental in identifying the implications of indebtedness.

The chapter presents five case studies. The qualitative analysis aims to reveal the crucial social, economic, and cultural factors affecting the decisions of individuals. One of the key findings is that the type of employment and changes in working conditions are pivotal factors to be considered in analysing the recent rise in consumer credit in Turkey. Apart from the labour market conditions, changes in consumption patterns and the easy availability of credit were also found to be important determinants of the debt phenomenon. Along with shedding light on the triggering factors, these case studies were insightful in understanding

the ways in which indebtedness affected labour, most notably by leading to intensification of work, longer working hours, and increases in the number of family members per household working. An overall assessment of the results from the case studies' analysis is provided in the concluding section of this chapter.

8.2 Case Studies

8.2.1 Case Study #1: Keeping Up With the New Consumption Patterns

Serdar[132] is a 38-year-old married man with two children. One of his children is in primary school and the other is at university. After graduating from a vocational high school, Serdar migrated to Istanbul to find a job. He found his current job as a turner in a motor manufacturing factory, and he had been working at this factory for 12 years at the time of the interview. Four years after moving to Istanbul, he got married. A few years later he and his wife decided to take out bank loan to buy a house so as to offer a better living situation for their child. In the aftermath of the 2001 crisis, they took out a housing loan with a 10-year repayment plan. At the time of the interview, they had 28 instalments (2.25 years) left. He described how they decided to take out a housing loan as follows:

> My wife and I were both working. We had a child. Up until that time, we thought that we would have a second child when we were free from rent. We were thinking this way because the cost of living had inevitably been increasing day after day. The rent was increasing each year. It had been 100 TL [per month], then it rose to 150 TL. From 150 TL, it rose to 200 TL. We lost track of how many increases there were…. When housing loans were first released, they were cheap. There was ease of payment. It was possible to repay over time. 10 years. Everyone around us started to get housing loans. The rent we had been paying was 500 TL, and the monthly repayment for the loan was 1,000 TL. We were already paying rent…. Let's say, it was also related to our neighbours, who were all taking out housing loans… plus, the landlord was keeping the rent high. With these thoughts, we decided to buy a house. At that time, the thinking was that "one bad landlord made one a house owner" proved to be true for us.

[132] All names are pseudonyms.

While initially he thought that it would not be difficult to repay the instalments, as time passed he found that was not true. As stated previously, taking a housing loan is a long-term commitment and the ability of the borrower to repay it is subject to multiple dimensions of social and economic changes. Serdar related the financial difficulties they encountered in making payments to increases in living costs. Being a unionised factory worker and benefiting from collective agreements, he said that there had not been a decline in his earnings in the last few years. Nevertheless, as their consumption habits changed as a family, it became more difficult to meet living expenses. According to him, the family's consumption habits have changed in many ways:

> In the '90s during the winter, aubergines, tomatoes, were not eaten. Maybe they were not available. Neither were legumes. Nowadays, every time you go to the market you have to buy them. They have become like basic necessities…. Today a mobile phone… I have one, my wife has one, and my son has one. There is a phone at home, as well. So there are 4 phones. The bill for the home phone is 20 TL [per month]. We have a fixed bill for it. We also pay 20 TL for each our mobile phones per month. Whether you economize or not, you have to pay this fixed cost every month. So, it adds up to 80 TL for 4 phones.... In the simplest terms, you spend 80 TL, even though you economise. In addition, you have Internet and you pay 30 TL for it, even again if you economise. After all this, you pay 110 TL just for communication. There is also natural gas in the bargain. Previously, there used to be coal. People were used to buying it once and using it for the whole winter. It was not in bags. In the '90s, you used buy coal by the tons. In other words, you were able to manage somehow. Maybe you were buying coal with one month's salary, but it was sufficient for one winter. But, nowadays, when it is cold, sometimes you allocate one third of your salary to buy natural gas. Likewise, electricity.

As well as pointing out the effects of changes in basic consumption patterns such as expenses for food and heating, Serdar's case is illustrative in showing how expenses for modern technological products (such as for mobile phones and Internet access) constitute a burden on their family budget. He explains that when he goes to a shopping mall, he usually visits the technology stores first to have a look at the new products. This is indicative of how new consumer products have become a part of the lives of workers. The importance of this

for this study is that it illustrates that not having a similar increase in wages and salaries, rising expenditures for new consumer products triggers debt.

Serdar described how they had increasingly relied on credit cards to meet their increased expenses which, in turn, led to mounting outstanding balances on the credit card. He admitted that withdrawing cash from the credit card contributed to his growing debt to a great extent. At this point, he gave the impression that he would rather borrow from friends than use the credit card. However, having bad experiences made him reluctant to ask for money from friends. He referred briefly to one of those experiences by telling of the time when he borrowed four gold coins from a friend. Later on, when his friend mentioned in conversation of not being able to buy something, Serdar felt that it was because he had not repaid this money. Speaking more broadly, he also mentioned his feelings regarding the adverse impact of debt on friendship. To avoid this strain on his relationships, he preferred to pay the high interest rate on the credit card instead of asking money from friends. Ironically, his account also gives the impression that he partially blames his friends for being reluctant to lend him money, causing him to fall into the debt trap:

> When money enters into a relationship, the friendship begins to deteriorate. I mean, that is why I try to keep them [money and friendship] apart as much as possible. I would rather take cash out using a credit card and pay 100 TL [per month] interest payment and manage without the help of others…. You try not to deteriorate your relations with friends. But then the limit [of the credit card] increases. While hesitating whether to pay the minimum or not, it [the outstanding debt] grows. Then the interest payment begins to become a burden. In order to pay it, you take out a consumer loan. Before finishing the payments, you recognise that the outstanding balance on the credit card has come up to its previous level again. Then you take a loan out one more time. Meanwhile you are trying to liquidate both of them…. I mean, you recognize that a debt of 7,000 TL has gone up to 20,000 TL in one year.

Serdar's case illustrates how he found himself in a vicious debt cycle, using a credit card to pay on his house loan, and then taking out a bank loan to pay the credit card debt. He stated that this debt has led him to adjust his lifestyle. While he could go on a holiday with his family in the 1990s and engage in social activities, now it is impossible to spend money for anything that would go beyond his and his family's basic necessities. If they were to engage in an activity, such as taking a short trip, it would constitute a burden on the family

budget. They would need to make a new credit arrangement, putting them in difficulty again until they finished paying off the vacation.

8.2.2 Case Study #2: The 2008 Crisis and Labour Market Adjustments

Kemal is a married man with one child. He has worked in an industrial estate for the last 3 months. His case illustrates how crises both aggravate indebtedness and increase the dependency of labour on capital.

His debt cycle started when he was forced to take unpaid leave in the beginning of 2009, after his industrial estate employer reduced the number of workers due the crisis. At the time of the interview, 1.5 years had passed. When he was forced to take unpaid leave, he initially thought that he would be called back in 15 to 20 days. However, he did not hear from his employer for the next 4 months. Even though he had graduated from a vocational school and had experience on turnery, he became desperate and took an unskilled job in a factory making compact discs. He worked there for 7 months for minimum wage. He even worked overtime without being paid extra because he had no choice. He was eventually let go from that job and remained unemployed for another 4 months. At the time of the fieldwork interview, despite having a relatively well-paid job for the last 3 months, he was very desperate about his ability to manage his debt. Indeed, when one considers his debt level, the total amount is 4 to 5 times his monthly salary. However, since all different types of debt were overdue, his debt was growing constantly because of interest payments. Although he paid off some amount every month, he was not able to reduce the total amount because of interest rates.

When he described how he had been forced to take unpaid leave in the beginning of the 2009, he also talked about how his financial difficulty had grown since then.

> Now people are very unfair. Believe me. My employer forced me to take unpaid leave. I am married and I have a child. There is a family that I have to look after…. In the beginning of 2009, I was working in a compressor factory in Avcilar. I worked there almost for 2 years…. I was forced to take unpaid leave. Okay, I understand this. Four months passed; there was no news from work. I went to the factory several times [after the dismissal] but I could never get my severance allowance. They were telling me that I was not giving them enough time. I was borrowing from several places during the time and I also overused the credit card. But, of course I could not handle

> all the debt since I was not working. Before you asked me for an interview, I had been just talking about this issue with a friend. Now, I am completely depressed.

At the time of the interview, he was indebted to three different banks, and the last bank loan had been taken out 7 months previous. Though he had credit problems and could not get approved for more credit from several banks, he sent a text message to Denizbank and the bank immediately issued a bank loan. He borrowed 3,600 TL, which would be 5500 TL with interest payments, owed in 3 years' time. He described how he decided take on that debt, although he was aware that it was not rational to do so.

> I was in trouble during that period. Under normal circumstances, I would not take this loan for that amount. Because it is 3,600 TL credit, I will pay 2,000 TL interest on it. I would not take it normally but when I was hard up for money…. If it were the case now, I would do it again because I had no other choice.

This is indicative in showing the weak position of workers when negotiating the terms and conditions of bank loans. Being in a position of need and having no alternative place to borrow from, Kemal had to apply for this high-interest loan. Under these loan terms, getting additional credit did not help restore his financial status but aggravated his financial problems. A short time later he was once again in search of credit, but being defaulted on bank loans and credit cards, he was not eligible for bank loans from any banks. This time he borrowed from his employer. At the time of the interview, he owed 700 to 800 TL to the employer, and that worried him very much. He said that if his employer cut his wages in response to his debt to him, this would leave Kemal in a severe financial situation:

> I owe almost 1,000 TL to my employer. Now my boss is saying that he shall deduct a part of this [from my salary]. If he does, I would be completely desperate. Since I owe to several places…. I mean, I owe on loans that I took out when I was not working. I also have an instalment loan for some furniture, etc. Since we could not predict the future, we had bought some stuff…. Then the crisis erupted, and so on and so forth. We could not find jobs. The debt mounted. Now I cannot borrow money from anywhere. Well, he [my employer] would deduct a part of my salary. I get 1,100 TL wage here. If he deducts 500 TL of it, I would be left with 600 TL. Normally, when I get my salary, 600 to 700 TL are out of my pocket before I reach home. Electricity, water, gas.... Even if I could not repay all my debt, still I pay little by little. Let's say I owe 500 TL to you, I give you 100 to 150 TL. This is all because of unemployment.

Kemal's narrative illustrates that he could not meet his basic necessities even working long hours. When he received his wages at the beginning of a month, the first thing he considered was how to pay the several bills and the debts he owes. He needed to make several calculations and decisions regarding his financial situation, and needed to live on what was left after paying his debts. Being neither able to meet his basic necessities nor reduce his debt level, he thinks that he is working in vain.

His case is also illustrative in showing how being in debt forced him to accept hard working conditions at an unfair price. He described why making people work overtime at a low pay is favourable for an employer.

> I work overtime here till 10 p.m., 8 p.m., or 9 p.m. every day. If I didn't work overtime, I'd be dismissed immediately. In my previous job, I was earning the same salary for fewer hours…. I was getting 6 to 7 TL overtime pay. Now I receive 4-odd TL. Besides, here the work is heavier. There are 8 to10 people. We make lifters. The ones you see on roofs. I swear; I earned the same salary 5 or 6 years ago. My ex-boss is in this industrial estate, you can ask him. I was never getting less than 7.5 TL as overtime pay. Now, I cannot earn that money, even working overtime every day. He gave me 140 TL overtime pay last month. Tell me, working everyday till 10 p.m., doing heavy work, not being able to go home properly…. is it worth working that much for that money?... But if I were an employer I would also make people work overtime. If you pay 3 TL for an hour's work instead of 10 TL, you would, of course, want workers to work overtime. If it is possible, you would ask workers to stay in the workplace during the night. This is my understanding of the situation.

Aside from telling of the financial difficulties he faced, he also frequently mentioned how working long hours affected his private life. He was frustrated about not being able to see his child anymore because he was going home at such late hours. His situation even made him blame being married for all his financial difficulties. It was not only because he needed to earn more money to feed and care for his family, but being married and having a child made him feel vulnerable under these conditions. He mentioned that he could no longer afford to turn down overtime, as he could before he was in debt. This meant less time with his family. This indicates the necessity to consider the psychological impact of indebtedness on families as well, and not just on the worker.

Overall, Kemal's case study illustrates the causes and effects of indebtedness as related to crises. It also highlights how crises are used as opportunities to increase the surplus value by reducing labour costs and to worsen working conditions. As Kemal told me:

> My boss came here and had his business set up in 5 years. He is awaiting a deal worth 100 billion TL. I do not envy it. But give me my share.… You do not receive the price of your labour. They say that there is a crisis. All of it is a story. Since I got this job, I have not gone home properly. I work full time.

8.2.3 Case Study #3: Cultural Change in Workers' Perception of Debt

The experience of Osman, a married man in his late 40s, confirms how one's attitude towards debt can change in a society where credit has become easily available. He married at the age of 27, and in the early years of marriage, he and his family did reasonably well financially.

In his experience, the economic crisis was an important factor in influencing the financial destiny of a person. When I asked him to tell his life story from the first time his family encountered a financial difficulty, he pointed to the 1991 Gulf crisis as the major event that led them into financial difficulties. After losing his permanent job during the Gulf crisis, he worked several jobs, ranging from a repairman to a seller in the market. He described this period as doing whatever job would ensure his family's basic survival. His narrative shows how crises have very long-term impacts on labour. Prior to the 1991 crisis, he worked in the textile sector. When the 1991 Gulf crisis erupted, the factory closed down. Although he had been working there for 7 years, he could not get his severance allowance. He remained unemployed for the next 8 months, and did some temporary work to make ends meet. He described that period as very hard, saying that there were days when he could not afford to buy bread to feed his family. To be able to feed their baby, he walked to work for 2 hours so that he could save milk money for the baby. Particularly important for the purpose of this study is the fact that even under such hard conditions, he did not think about borrowing from anywhere. He described this situation as follows:

> In those years, I was not used to borrowing. I had promised myself. I had promised myself not to borrow from anyone and to paddle my own canoe. I did not borrow. See, I did not have debt in those times, but now I have.

Osman had a negative attitude against borrowing from relatives, friends, or banks. Although as time passed, his stand on borrowing from banks changed (he still had a strong bias against borrowing from relatives or friends). In telling this part of his life story, he referred to an old saying in his hometown, which demonstrates the importance of culture as a factor in forming an individual's attitude towards borrowing. "It has been a part of the culture, as they say: 'Do not borrow from family friends…. Eat onion and bread then pick your teeth and make people think that you have eaten meat'". The account indicates that cultural perceptions may influence individual perception towards debt.

Historically shaped values and beliefs at the community level may underpin attitudes towards borrowing. However, institutional and economic changes can lead to a cultural change in an individual's understanding of debt. As was discussed in Chapters 4 and 5, from early the 2000s, there was widespread encouragement from financial institutions to borrow and a growing dependence on consumer debt in Turkey. Under these circumstances, individuals no longer thought of debt as a burden to be avoided at all means but rather as an accepted part of daily life. Osman's narrative strongly demonstrates how it became hard to resist borrowing in the face of financial difficulties in a society where credit became easily available:

> In the middle of months you are hard up for money, so you take out a bank loan because of necessity. There are children's education expenses, and so and so forth. You have no money left. You go to a bank and take out ready money. It is not like your own money but still….

Even though easy availability of credit encouraged Osman to borrow, he still described himself as credit averse. Being aware of his inability to pay high-interest bank loans, he tells how cautious he was about taking a bank loan. He described refusing to take out a bank loan from the bank where he was working as an electrician:

> I could take out a loan from that bank [TEB], as much as I wanted, but I did not do this, considering my wage…. Who I am. Okay, I could take out a loan but.... You could not buy a house and then spend the money. Ultimately, you need to repay the loan. In addition, the interest rates at the TEB are high. I saw people who were miserable. Fortunately, I did not take out a loan from there. I took it out from another

bank, but I took an amount that was just above my wage. Even if I would be unemployed, I could split it into 4 instalments and could pay it. It is not a matter that I can't pay it. But, if it is 5,000, 10,000, 20,000 TL, then I cannot pay it. Then it always adds up and if you cannot not pay it...

Although, he described himself as still credit averse and cautious about not borrowing large amounts, his case is illustrative in showing that in a society where credit has become the norm and easily available, it is hard to resist borrowing. As long as others are in the same boat, there is a greater tendency to regard debt as unexceptional and normal.

8.2.4 Case Study #4: Greater Participation in the Labor Force, Reinforced by Rising Debt Burden

Ali is in his late 20s, married, and has a child. He graduated from a university in Izmir with a degree in business management. However, he works as a painter in the Tuzla shipyard in Istanbul. At the time of the interview, Ali had been married for 4 years, and his family's financial situation had fluctuated quite a lot over the previous year. He stated that during the first three years of his marriage, financially they were managing well. During this period, they were living in Izmir and could get by on his salary as a production chief in a steel construction factory. However, when the factory was shut down in 2008 due to the global crisis, he became unemployed. After finding a job in Istanbul, they moved from Izmir. Using the crisis as an excuse, the employer in Istanbul offered one third of the salary he had originally promised. Ali refused the job and remained so unemployed for the next 6 months. After an intense job search, he started to work in the shipyard.

He told me during the fieldwork interview that moving to Istanbul and having a baby led to rise in their living costs, and the decline in his income aggravated their financial problems. But according to Ali, the major event that threw his finances into disarray and made his debt problematic was becoming unemployed.

During the time of his unemployment, they used up the severance allowance he had received from the production chief job. Once that was gone, to get by they started to live on a credit card, on which they eventually defaulted. At the time of the interview, he had a 1,500 TL balance on his credit card. Two months' prior to our interview, the debt had been split into 10 instalments, though he had yet not made any payments. When I asked whether he was in legal trouble over this debt, he hesitated before saying that he might be. He told me that he

also ran up a mobile phone bill which needed to be paid in a few days because he was in legal trouble over it too. In addition to these money woes, during his unemployment period they became 3 to 4 months in arrears in their rent, which they had just started to repay.

In order to pay off their debt, he had decided to take an additional job to the one in shipyard, so he was also working as a minibus driver for a few days each week. Although his wife preferred not to work because of their child, she also felt obliged to seek work. At the time of the interview, she had been working as a shift manager at a restaurant for 3 months.

Ali's case illustrates how, as a family, they have to work more in order to meet their subsistence and to pay off their debt off at the same time. While they were once able to get by on one salary, now he had to have two jobs and his wife had to work as well. In this sense, the case is indicative that growing household debt led women entering the workforce.

8.2.5 Case Study #5: The 2008 Crisis, Being a Casual Worker in the Shipbuilding Sector

Zafer is a 29-year-old married man with two children. He migrated to Istanbul from Adana many years ago to find a job through his brother, who had been a worker in the shipyards. Zafer started as an apprentice and became a master welder in the Tuzla shipyard. As many other workers in the shipyard, he was occasionally offered contract work, which is always under very dangerous conditions and always temporary. Before the current downturn, his financial situation was stable. He had been working for a subcontractor, and the shipbuilding industry offered reliable and constant work with a reasonable daily wage. However, after the 2008 global crisis erupted, many of the shipbuilding projects were cancelled. As a result, his contract was terminated and work became increasingly infrequent from that point onwards. At the time of the interview, he was working on-call through his networks in the shipyard. He explained how the recession in the shipbuilding sector led to a dramatic deterioration in his family's financial situations as follows:

> We [shipyard workers] are people who make a living by working; we do not have an expectation to sponge off other people or to do some other businesses. We have a profession. We were performing it to the utmost of our ability. But later on, whatever happened, the crisis erupted. Wages declined; that's not the problem, really. We were workers who earned 80 to 90 TL [per day]. Our job is about working in heavy industrial institutions. I mean you are nose-to-nose with death. But when the crisis erupted, salaries declined and work became scarce…. This affected us extremely….

> the real problem is the lack of work. While earning 80 TL previously, we now earn 65 TL [per day], including working the night shift. Others receive 55 TL [without the night shift]. I mean, if the work continued, even if we worked for 30 or 40 TL, we would not have experienced this financial difficulty. It's the lack of work….

His account highlights how the crisis conditions made workers willing to accept lower wages as long as they had a job guarantee. The reduction in working days, accompanied with a decrease in daily payments, led Zafer to accumulate a substantial amount of debt. At the time of the interview, he had several types of debt, including 3 credit cards, 2 bank loans, and instalments. Two of his credit cards had been cancelled, and he was 7 months in arrears with his rent. He had received a lien notification from a bank, but he tore up the paper. He no longer knew how many payments he needed to pay off each debt. Along with his formal debt to banks, credit cards, and his landlord, he also owed money to his family. Since this was not a priority for him, he did not mention it until it was asked. The biggest worry for him was the bank debt. He described what it meant to be indebted to a bank:

> If you owe money to someone, you can give it back somehow, but if you owe to a bank, that it is different. I took out a 3,000 TL loan from a bank and paid 1,500 TL of it back. Now my debt is again 3,000 TL. Fifteen hundred TL has gone [without it reducing my debt]. It was my money for bread. It was not stolen money. It was the price of my labour, and it is gone.

His life story shows that even with transferring a portion of his income to the bank loan and trying to work his way of out of debt, he was unable to reduce his debt because at one point he had fallen behind his payments. In total, he owed 8,000 to 9,000 TL which he considered would be manageable under normal circumstances. He said that if he had a decent job then he could make pay back his debt in instalments. Nevertheless, facing a very insecure labour market and low daily salary, his debts seemed unmanageable to him. At the time of the interview, he was extremely worried about his potential to pay back the loans and very regretful of taking out bank loans:

> This debt will multiply and reach an incredible level. The bank will add interest on it. I wish I have not taken it. Would I had died and had not taken out the loan. Ask me

> what I have done with the money. If I remember then, I am coward. Tell me, you got the money and bought this particular thing. Upon my conscious, there is such a thing.

His need for borrowing credit was related to his inability to meet daily expenses in the face of the crisis. He was not anticipating that the crisis would last as long as it did, and thought that he would pay his debt back once the crisis was over. He said that, in the beginning, he could roll over the debt somehow. The fact that he could do this shows how different lending mechanisms were adopted, such as the emergence of new types of usurers using POS (point of sale) machines.

> We managed the debt for a period of time. We had someone pay our [credit card] debt…. You know, how do they call it? They call it usury, or something different. For instance, I give him my credit card and tell him that there is 700 TL owed on it. He says "Alright" and charges 5 TL for every 100 TL of debt. So we were getting out of trouble…. There was a similar process we went through when we needed cash. We handed the credit card to the person [running a POS machine], saying that we needed 500 TL. [He processes a credit card transaction worth 500 TL and gives us cash]. He charges 15 TL for this service. That is how we were managing.

The methods described above are two common ways of how POS machines are used by usurers in Turkey.[133] Usurers charge interest either by lending cash or settling the debt of borrowers who have difficulties in paying off their credit card debts. It is striking to see that, contrary to expectations regarding its role to reduce informal financial transactions, credit cards have given way to such usury practices.

[133] Usury is practised in Turkey, mainly in stores selling jewellery and cell phone prepaid cards. To make it better understood, here are two examples of the different ways in which usury is practised in Turkey. First, consider a person who needs 7,000 TL, and go to a usurer. They first agree on the interest rate to be charged. After calculating the interest payments on the amount needed, the debtor makes, for instance, a 10,000 TL payment using his or her credit card. The usurer, in turn, gives 7,000 TL cash to the person. In this case, 3, 000 TL automatically returns to the usurer. The debtor then takes the money and pays 10,000 TL credit card debt in instalments. In the second example, assume that there is a person who has trouble paying 10,000 TL debt on his or her credit card and the default interest rate is 5% per month. As the annual interest rate would be 70%, he needs to pay 17,000 TL in total in order to pay off this debt in one year. Assume that to avoid this interest payment, the person goes to a prepaid card seller and makes a payment of 12,000 TL in 12 monthly instalments for a fictitious sale. The seller pays off the initial 10,000 TL debt of this person and keeps 2,000 TL for himself. In this scenario, the debtor pays 5,000 TL less interest payment for his credit card and the usurer profits 2, 000 TL (all of this money earned by the usurer is profit because sales of cell phone prepaid cards is exempt from tax). ("Kredi Kartı", 2008; "Pos Tefecilerine", 2009).

Turning back to Zafer's case, he was describing the above situation to exemplify how he could manage his debt in the beginning. At the time of the interview, it had been one and a half years since the beginning of his financial difficulties. He could now neither meet the basic necessities of his family nor manage his debt. He was more constrained financially because, starting in 2009, wages were paid through banks, so consequently a portion of his salary was taken by the bank each time he owed a bank payment (see Chapter 7).

Over the course of the interview, he frequently mentioned how having a part of his wages garnished left him in a desperate situation and unable to meet his responsibilities as his family's breadwinner. It was striking to see that he was grateful that his employer did not deposit his entire salary into his bank account (but gave some of it in cash), although the employer was supposed to do so. He described a time when a portion of his earnings had been garnered by the bank:

> I worked somewhere. My wage was cut [partially taken] by Asya Bank. I mean, I [was paid] 200 TL in cash and 170 TL was deposited into bank. The bank appropriated the money as a whole. Think that I had not taken a part of my money in cash, then I would be utterly hungry. You are a man. You have a wife and two children. There are people who wait for bread at home. What could you do?

His account also points to the problems in the social security system in Turkey. In the shipbuilding sector, subcontractors, who receive their payment from the big companies, started to pay wages to their employees by direct deposit into their bank accounts in 2009.[134] Whether the legislation that established direct deposit for wages will function effectively is questionable. There is a systematic effort on the part of employers to underreport wages earned in order to minimize their part of premium payments owed to the social security system. Zafer stated that if a welder worker in a shipyard earned 1,500 TL per month, he would receive 1,000 TL in an envelope, with the rest paid into his bank account. He told me that until implementation of the new labour law, his security premiums had not been paid, and after the law, they have been underreported. Given this situation, he thought that he would never be able to retire; that is why he did not care whether his premiums were paid or not. Moreover, he admitted that having a portion of his wages paid into his bank account caused him to lose control over his salary.

[134] As mentioned in Chapter 7, a new labour law that was passed in 2009 mandated that companies must pay wages through bank accounts.

> Does it matter if the social security premium for the 10 days of work I have just finished is paid or not?... Do you think it is possible for me to pay this debt by working? All my money will be blocked [by the bank]. For instance, I earned 1,000 TL. Three to four hundred TL of it goes to the bank. [Only] 600 TL of it will remain. You do not pay the landlord through the bank; you pay the rent in cash, nor do you pay the food expenses through a bank account. Which of your debt will you pay with the 600 TL?"

Zafer felt humiliated and was not confident about his ability to repay his debt. "Whoever you are, any worker...a person whose social security premium is [only] paid from time to time. Let's pay it (debt). How could I pay?" His narrative in general gives the impression that he feels being indebted has undermined his respect and authority as the head of his household. He constructs an identity based on physical strength, pride in working under difficult conditions, and commitment to being the breadwinner of the family. This is a common phenomenon in Turkey, where men are brought up to see themselves as the breadwinner. They expect to be respected and earn their authority. However, as the case of Kemal shows, when he could not perform this patriarchal role, he started to blame his family for his current situation. "We got married and we got ourselves into all sorts of trouble…. If you are alone…." On that basis, this experience is also insightful in showing the physiological implications of indebtedness on workers and its potential effect on their families as a whole through the pressure it creates.

8.3 Conclusion

In-depth interviews allowed for probing issues that were unclear from the questionnaire results (see Chapter 7) and needed further explanation. As discussed in Chapter 6, qualitative methods were designed to analyse the financial exposure of workers over time to reveal associated changes (in particular levels of debt), and to see it as a part of a whole network of social and economic relations, congruent with the theoretical outline presented earlier. In this regard, insights from the interviews shed light on three broad themes: the factors that underpinned the widespread indebtedness of workers, the changing perceptions of credit within the society, and the capital–labour relations that have been affected by workers' growing debt.

In considering the factors that underpin this indebtedness, a number of important factors emerged: the impact of the 2008 global crisis in terms of rising unemployment, greater income and job insecurity, and employers' adoption of a variety of ways to reduce their costs (increased mandatory leave, not paying severance packages, reduced overtime pay, etc.). Interviews also demonstrated that changes in consumption patterns led to increased borrowing.

First, in analysing the interviews, the effects of the 2008 crisis on Turkey's labour markets emerged as the key determinant for the increased involvement of workers in financial markets. As discussed in Chapter 5, the 2008 crisis affected the Turkish economy mainly through its export channel. Industrial production fell by 30% in 2009, and as overseas consumer demand fell, sectors with extensive linkages to the global production chain faced a decline in the demand for labour too. Subsequently, this impact spread to domestic markets, so employment in other sectors declined as well. Overall, the entire labour market felt the global shock through rising unemployment.

Although credit may help in dealing with income fluctuations, interviews do not present a picture that it offers a quality standard of living. Overall, the analysis of this research shows that, once indebted, workers often become unable to even out their expenditures over long periods of time. Going into debt during a period of unemployment was found to have a cumulative effect, rather than a one-time shock to the budget. Interviews demonstrated that the workers who experienced unemployment even for a short period of time often found themselves in a debt trap from which exit seemed impossible. Savings were quickly used up during the unemployment period and debts often spiralled out of control. With the on-going effects of the crisis, unemployment usually ended with acceptance of a lower- paying and insecure job. Hence, workers were not able manage debt even after becoming employed again.

Increasingly, employers have demanded worsening work arrangements (part-time work, lower wages, temporary work, etc.). During the interviews, many workers stated how things turned upside down in the aftermath of the 2008 crisis. The first victims in the metal sector were the employees the least able to cope with the worsening employment outlook. In the context of this research, these are the workers employed in small industrial estates and shipyards, where flexible and precarious employment predominates. Evidence from the fieldwork showed how the mechanism that employers adopted to reduce their costs, such as lowered wages and overtime pay, enforced leave, and dismissal without paying severance

packages, all triggered the beginning of workers consumer debt. Their indebtedness increased the number of insolvencies and bankruptcies among workers.

In addition to the deterioration of labour market conditions, other factors emerged during the interviews as causes of debt. Change in consumption habits is one example. The integration of Turkey into the world economy was accompanied by globally oriented consumption patterns. Individuals have increasingly been encouraged to consume more through the media and in advertising. These new consumables have become part of the daily lives of these workers. The evidence from the interviews regarding rising expenditures for telecommunication and technology goods and services supports this argument. As discussed in Chapter 5, because the increased expenditures on new consumption products have not been matched with increases in wages, there is a greater disparity between income and spending, and hence a growing indebtedness. Evidence from the fieldwork suggests that credit, instead of already earned money, is more frequently used to purchase these new consumer commodities (for example, cell phones) and thus it triggers vicious debt–borrow cycles. In the case of declining or stagnating wages, it is dubious whether new consumption patterns alone lead to an increase in living standards.

The second key theme that emerged in the interview analysis is the changing perception of debt among the workers. Historically shaped beliefs and values in a society can be an important determinant in the attitudes towards borrowing. However, institutional and economic changes can lead to a change in the culture. The interviews revealed that cultural prejudices against debt have profoundly changed. The participants reported that while they would have considered taking a loan as unacceptable in the last decade, they have changed their attitudes under the given circumstances. Many of the participants justified their borrowing by stating that almost everyone has debt and considers the situation as normal. This study argues that this cultural change has to do with two fundamental factors. First is the growing dependence of workers on credit to make end meets, as already elaborated in detail. Second is the widespread encouragement from financial institutions to apply for credit. During the interviews, conversations about banks and credit often turned to the excessive fees and interest payments as well as banks' aggressive marketing strategies. Bankers have actively encouraged workers to borrow and to make use of bank services by visiting the workers right at their workplaces. Bankers' readiness to offer credit cards has little to do with workers' ability to meet debt obligations. To recap, as a consequence of the growing dependence on debt and the easy availability of credit from financial institutions, there has

been a profound shift in the workers' perception of credit, from seeing it as something to avoid at all means to accepting that debt and credit use are part of daily life.

The case studies were illustrative in showing that development of debt as a means of covering basic needs that cannot be evaluated by the neoclassical understanding of the issue. In neoclassical economics, individuals are assumed to be self-determined and who act to maximise their utility. Under that analysis, borrowing is seen as a choice made to reap maximum benefit by assessing its costs and benefits. However, since wage earners' borrowing is driven by daily living needs, borrowing appears more to be a necessity than a choice. The results show that rising debt is closely related to rising unemployment and to labour market adjustments which are beyond the control of the workers.

Lastly, one of the major contributions of the qualitative analysis was that it brought workers' indebtedness into a broader analysis of working life, it shed light on the evolving conditions of workers, and it identified what this means for labour. In this regard, the case studies provided insights into how the capital–labour relations were affected by the rising indebtedness of workers. It was found that debt had added new dimensions to capital–labour relations by functioning as a mechanism to discipline the labour force. Interviews demonstrated that to meet their subsistence needs and to pay off their debt households needed to have more members earning wages, needed to work longer hours, and needed to be willing to accept low paying and insecure jobs. Thus, it can be stated that in the last instance, debt increased workers' commitment to hold onto these jobs out of desperation, leading to more surplus value appropriation from labour by creating room for intensification of work.

Chapter 9: Conclusion

The motivation for this dissertation is to establish the causes and consequences of the recent rise in consumer debt in developing countries. It contributes to the broad literature on financialisation of personal income, drawing on the experiences of developing countries, with a particular focus on Turkey. The empirical part of the dissertation focuses on how and why workers are increasingly involved in the financial system. The thesis argues that over the last decade, workers' indebtedness in Turkey has increased as tensions between new forms of capital accumulation and social reproduction of labour have deepened.

This study contributes to the existing body of knowledge by using data collected through questionnaires and interviews during fieldwork with workers in the metal sector in Turkey. These separate methods employed in this research contribute to this study in the following ways. The quantitative method, the questionnaire, finds empirical facts about the object of inquiry—the nature of indebtedness, the reasons behind credit usage, the access to and use of banking services and savings of the workers—on which there are no official statistics. The qualitative method, the life story, allows the hidden underlying structures related to the object of inquiry to come to the fore, and hence avoid taking descriptive statistics as a cut off point. In that manner, life stories help to explore why workers with different employment statutes adopted different patterns of borrowing. Further, this particular method is instrumental in identifying the implications of indebtedness on labour, capturing the causes and effects of experiences over time, and revealing the evolving life situations of the interviewees.

The research findings indicate that the extension of consumer credit to workers is related to a complex array of economic and noneconomic factors. These results are in accordance with the theoretical framework described in Chapter 2, where it was shown that consumer credit is attached to the economic and social reproduction of labour power; therefore, consumer credit needs to be analysed by considering all the factors connected to it. The key findings of the empirical research are summarised in the following points:

1. The research shows that consumer credit widely affects the lives of the workers in the study (unionised factory, industrial estate, and shipyard workers). According to the survey results, almost two thirds of participants were in arrears, mostly in payments on bank loans and credit cards. Given the high number of indebted participants, it was not surprising to find that most of them had no savings. Those with savings reported they mainly held their savings in traditional gold and bank deposits, and sometimes in

foreign currency, indicating that there has not been a major transformation in saving patterns of workers. As such, the financialisation of workers' income has mainly taken place through changes in their borrowing patterns.

2. A key theme that emerged out of the research was the changing perceptions and attitudes workers held towards credit and debt. As the interviews were used to reveal the experiences of workers over time, they were quite helpful in showing the profound change in the cultural prejudice against indebtedness. Many of the respondents stated that they would have previously considered borrowing from banks unacceptable, but now they regard as normal because everyone is borrowing. This reveals that as long as others are in "the same boat", there is a greater tendency to regard debt as unexceptional. This implies that instead of being merely influenced by economic factors, consumer debt is embedded in a set of social relations, and changes in social norms have led to changes in attitudes towards credit and debt. Indeed, there is interplay between social, economic, and institutional factors. This study focuses on two dynamics that play roles in the changing attitudes of workers towards credit and debt: the strong encouragement from financial institutions for issuing credit to workers and the increased dependency of workers to use credit to meet ordinary living expenses. These two sides of the story also support the argument of this dissertation regarding the deepening of the unequal relationship between banks and workers in the age of financialisation. This is evident in the results of the research on the decision-making processes of workers in choosing which credit cards and bank loans to apply for and use.
3. The evidence suggests that the willingness of banks to provide easy credit was an important factor in workers' choices over which bank loans and credit cards to use. Participants reported barely reading the terms and conditions or comparing fees and interest rates because they found little meaning in doing so. Workers often encountered bankers when they were most desperate for money, and hence availability and ease of getting the loan, not the best choice, was most important. There is also the issue that the length and complexity of the contracts discouraged borrowers from reading and evaluating the contracts. This is partly related to the technological innovations and developments which have allowed expansion of increasingly complex financial services. Credit card contracts particularly are highly sophisticated, so it is unlikely that a typical consumer would be able to evaluate all of the attributes of the transactions.

Further results demonstrate that workers are often exposed to aggressive marketing strategies of banks. Once a relationship is established with a wage earner (mostly through direct deposit of wages), banks will take the opportunity to offer credit cards and bank loans to both the account holder and his or her family members. The opportunity to aggressively market financial services means fierce competition among banks to reach a large number of customer portfolios through direct deposit wage payments system. As further pressure on workers to borrow, even banks which could not reach an agreement with companies for direct deposit wage payment system, their bank employees visit these companies to offer credit cards and loans. Workers who are unable to make end meets and need funds to close the gap between their expenditures and income find ready offers of credit. The desire for profits on the part of the lenders mixed with the cash and subsistence needs of the workers seems to have stimulated borrowing. The latter can be better understood by taking a closer look at the research results regarding the reasons for using credit.

4. The following conclusions can be drawn regarding the reasons behind the increased use of consumer credit. The results show that the most common types of bank loans used by the participants were personal loans, rather than housing and auto loans. It is striking to find that more than half of the participants took out personal loans in order to make a loan payment to another bank or to pay on credit card debt. The interviews suggested that temporary unemployment was one of the major factors that triggered their indebtedness in the first place. Further, the 2008 global crisis was found to aggravate the situation because it led to increases in enforced leave from work or in being fired but without receiving a severance package. That crisis was also found to create an opportunity for employers to reduce salaries and overtime payments, which in turn led to an increase in workers' need to borrow as their income fell. These results imply that workers ability to plan and manage their finances was constrained by external conditions. As opposed to the theory that suggests consumer credit can help overcome fluctuations in income, the dissertation evidence demonstrates that borrowing often results in a debt trap as labour market conditions deteriorate and workers end up entering lower-paid and insecure jobs. This supports the argument of this dissertation regarding the necessity of examining consumer credit within a socioeconomic context.

   There is also evidence of increased reliance on credit in order to meet rising expenditures due to changes in consumption styles. The results show that increasing

expenditures, especially on telecommunication and technology goods and services, have led to an increase in living expenses. These observations are connected to the theoretical argument of this dissertation that the socially necessary cost of reproducing labour power increases as the consumption of goods and services become more available, conditioned by the different socio-cultural and economic processes that create these goods and services. Efforts to stay current with the proliferation of commodities that are increasingly perceived as necessity for self- and social recognition seem to be leading to increases in expenditures. However, as these growths in outlays have not been matched with similar growths in incomes, the result is an increasing reliance on consumer credit to cover the gap.

5. One of most significant finding to emerge from this study is that credit and debt practices reflect differences across workers according to their employment status. These findings reveal that integrating an analysis on the changes in the labour markets is crucial to a comprehensive understanding of the functioning of consumer credit in the current phase of capitalism.

   The results from the survey demonstrate that flexible and insecure employment conditions increased vulnerability to debt problems. As presented in detail in the theoretical chapter of this study, consumer credit is a claim on the potential of a worker to produce future value. It is issued against the anticipation that labour power, which is in the essence of value, will be realised in the future. However, the realisation of labour power has become increasingly unstable accompanied by the increasing labour market flexibility. This dissertation argues that deregulation of labour markets, especially with the proliferation of precarious, flexible, insecure types of employment, had consequences on credit use and workers' indebtedness. The empirical evidence demonstrates that workers who were employed in such jobs faced greater income instability and therefore were more often exposed to debt problems. This was found to be partly related to the fact that workers used consumer credit for wage substitution, especially with the decline in work days and late payment of wages.

   The link between quality of employment and debt was most clear in the more frequent use of credit cards by workers who were employed in casual and insecure jobs. Although most of the participants in the survey had access to bank accounts, it was observed that having a bank account, per se, did not give full access to a range of financial services at reasonable prices. These workers in particular were unable to

acquire the requested payroll accounts, proving their social security premiums have been paid for at least the last 6 months, for loan applications. As such, they frequently used credit cards as a substitute for bank loans, and the results suggest that a significant number of these workers used credit cards to meet daily expenses rather than using it occasionally for emergencies or large purchases. More strikingly, they withdrew cash advances through these credit cards, which is a very expensive way of borrowing. This, in turn, increased the amount of outstanding debt on credit cards. Even among those who had access to consumer loans, job and income insecurity lowered the potential to make credit repayments on time. Consequently, as debt accumulated due to penalties, the amount of money that workers transferred from their wages to financial institutions increased.

6. The findings also reveal that the growth in workers' debts increased the dependency of labour on capital. The burden of servicing debt forced workers to accept longer work hours, low paying and unsteady jobs, and harder working conditions. This means that debt increased workers' commitment to his or her employer in order to keep bringing in wages. Moreover, having debt was found to prompt more family members to enter the workforce in an effort to make payments on debt.

This study also explored the macroeconomic, as well as institutional, political, and historical, environment in which the rise in consumer debt has taken place. As put forth in the introductory chapter, the remarkable increase in consumer debt in Turkey is argued to be a consequence of stability in the financial markets, leading banks to extend consumer credit and hence households did not have to postpone the purchase of durable goods. In this line of reasoning, it is assumed that the expansion of consumer credit led to cycles of: increased opportunities for households to overcome liquidity constraints—increased spending—increased norms of consumption. However, this study argues that such an account in and of itself fails to acknowledge the *systemic* reasons for the rising supply of and demand for consumer credit. Further, it ignores the fact that consumer credit might be used for several reasons, creating different outcomes.

In order to conceptualise the rise of consumer credit and to construct an historical and socioeconomic interpretation of the phenomenon in the context of Turkey, this dissertation pursued a theoretical and empirical investigation of the subject. The theoretical framework had two broad goals. The first was to offer a comprehensive theoretical account on finance in order to contextualise and frame the research on consumer credit. The second was to give a

brief overview of the literature on financialisation in order to explore how the framework can be used to situate rising consumer credit in the context of transformations that financial and nonfinancial sectors of developing countries have been undergoing over the last few decades.

In line with the first objective, Chapter 2 engages in a discussion of the mainstream approaches to banking and consumer credit. In relation to banking, it particularly focuses on the information theoretic approach which has become the dominant paradigm in the mainstream analysis of finance in the last four decades. The review of information theoretic literature is useful to show the limits and inadequacies of this literature in explaining the transformation of the banking sector in the financialisation era and, more specifically, the shift in banks' focus away from lending to enterprises towards lending to consumers.

In the information theoretic approach, information asymmetries and transactions costs are regarded as the main reasons for the existence of financial institutions. A major problem regarding this approach in general is its treatment of information as an external reality rather than as a highly contextual concept conditioned upon social, historical, political, and cultural factors. Further, it offers little or no insights into the reasons for the diversification of banking activities into a wide range of financial services or the increasing role of banks against the backdrop of technological innovations (as these are expected to bring a decline in the cost of information). All in all, the approach fails to address the structural factors that influence the relationship between finance and industry, and the role of the state in shaping its financial system.

In relation to consumer credit, mainstream analyses, in general, are grounded in the permanent income and life cycle consumption hypotheses. These accounts theorise consumer credit from a microeconomic perspective by building a theory upon an examination of a representative individual who tries to make rational choices in response to changes in his or her income. Later contributions to this strand of literature put an emphasis on the importance of accounting for information asymmetries and market failures in the centre of their analysis of consumer credit. This study critically discusses these views, first for their understanding of consumer credit as autonomous from social relationships, and then for their avoidance of considering structural transformations that condition borrowing and lending decisions.

This thesis contextualises both banking and finance, in general, and consumer credit, in particular, from a Marxist political economy approach. This approach provides the foundation for understanding credit relations as a part of broader social relations and as dependent on the developments in the forces and relations of production. On that basis, this study argues that an inquiry into credit relations must be built on an examination of

socioeconomic and political transformations in an economy through which the capital accumulation process evolves. This was explained more systematically by drawing on the experience of Turkey.

This thesis also puts emphasis on the necessity of broadening the research on the political economy of credit relations to include not only borrowing and lending between industrial and banking capitalists, but also between banks and workers. In the case of credit relations between banking and industrial capitalists, loans are used to generate surplus from which interest payments can be made. In contrast, credit extended to wage earners is a claim on future income and is attached to the reproduction of labour power which entails social relations and use of noncommodified goods and services. The view argued here is that when workers pay interest on consumer credit, it implies that a part of their wages is paid back to banking capitalists. In this regard, lending to workers has an exploitative feature similar to usury in pre-capitalist societies. Drawing on insights from Lapavitsas (2009a), in this study this process is conceptualised as "financial expropriation". Financial expropriation has shown to play a more significant role as consumer credit becomes aggressively extended to workers and other segments of the society in the age of financialisation. This exploration benefits from the literature on financialisation because it offers a framework on which to analyse not only the penetration of finance into new spheres, but also changes in the relationships between industrial capitalists, banking sector, and wage earners and the socioeconomic, political, and institutional contexts that shape these relations. On that basis, this dissertation traces the financialisation in developing countries starting in the late 1980s, highlighting the peculiarities of their experiences.

Market-based solutions to the debt crises of the early 1980s played a crucial role in the financialisation of developing country economies. They provided a foundation for broadening and deepening the local financial markets through the growth of public domestic bond markets and created opportunities for banks to increase their economic power by holding the majority of government debt securities. Banks started to earn much of their profits from holding public securities that were low risk but paid high interest rates. In the 2000s, banks in developing countries expanded the scope of their activities by adding lending to households. Accordingly, there has been a substantial rise in household borrowing from financial institutions; this has been the main form that the financialisation of personal income has taken in developing countries, as opposed to developed countries where borrowing has been accompanied by a rise in households' acquisition of financial assets.

To shed light on the reasons behind the rise in consumer debt in developing countries within a historically informed socioeconomic setting, Chapter 3 traces the many transformations that have occurred in developing countries, and captures the main supply-and demand-side factors that play roles in the process. This framework is then used to analyse the consumer debt in the context of Turkey in Chapter 5.

Regarding supply side factors, emphasis is placed on explaining why banks moved into the realm of consumer finance; for one reason, banks are the main providers of consumer credit in developing countries. In the case of Turkey, the 2001 crisis acted as a turning point in the transformation of its banking sector activities. The Turkish economy experienced chronic inflation, high interest rates, and a huge public deficit in the 1990s. The 2001 crisis erupted under these conditions, leading to dramatic contraction in the financial sector. The banking sector went through a major reformation in the aftermath of the crisis, creating an environment for banks under which they needed to act more like independent capitalist enterprises, so they sought alternative business strategies. Turkey's new fiscal and monetary policy environment post-crisis reduced banks' opportunities to make profits from financing the public deficit. This put pressure on the banks, because they could no longer earn the majority of their income in the same way as they had done throughout the 1990s.

Another contributing factor to the transformation of Turkey's banking sector activities has been the increase of domestic corporations borrowing from international sources, meaning there has been a decline in their reliance on domestic banks. This type of decline has been witnessed both in developed and developing countries in the age of financialisation. The decline was caused by various factors in the context of different countries. In core capitalist countries, in general, the major driving force has been the ability of corporations to create their own funding opportunities through open markets (Lapavitsas, 2009a). Corporate bond issuance has become an important source of funding in some East Asian and Latin American developing countries as well, though a more influential factor in developing countries has arguably been their increasing access to international funding opportunities, as is quite clear in Turkey. Lower international interest rates, along with excess global liquidity conditions, reduced the cost of external financing for developing country corporations and banks over the last decade. This has had implications on banking sector activities through two channels. First, nonfinancial corporations' increased access to international financial markets reduced their reliance on domestic financial institutions. Again, this induced banks to search for alternative activities. Second, excess liquidity in the global market increased foreign funding

opportunities for financial institutions, allowing them to fund consumer credit expansion through alternative sources.

Finally, the entry of foreign banks into developing countries accelerated domestic banks' heavy involvement in consumer lending, as foreign banks were already experienced in offering consumer services. In sum, driven by all these factors, banks in developing countries increasingly shifted their focus from state debt and lending to corporations to household financing. Banks have made consumer credit more available than ever before.

Regarding the demand-side factors, consumption patterns have changed rapidly in developing countries with trade and financial liberalisation starting in the 1980s. Increasing imports from Western countries provided households with a greater variety of goods to choose from, and this process has intensified over the last decade. The analysis of the Turkish economy showed that the economy experienced an import boom driven by overvaluation of the domestic currency, and shares of imported consumption goods increased. Proliferation of shopping malls, local branches of global brands, fast food chains, and increased advertising accelerated consumption. Further, as a group, developing countries entered the 2000s with lower inflation and interest rates. Until the 2008 global crisis, developing countries in general experienced high growth rates that were mainly driven by increased exports, surges in foreign direct investment, and increased remittances. Lower inflation and interest rates, combined with economic growth, in part, stimulated the demand for credit. However, such an accounting by itself does not offer insights into the effects of political and economic restructuring over the last few decades on households' increased need to borrow. Globally, the last three decades have been characterised by the deregulation of labour markets and the dismantling of public services, such as health care and education. This thesis argues that when the underlying structure is flawed, an analysis that borrowing is a decision to smooth consumption in response to temporary changes in income can only be partially insightful. This study provides an elaborate analysis of the transformation in production and trade structures in Turkey, post-2001 crisis, to show that these were achieved, in part, by reducing labour costs and deregulating labour markets. The dissertation argues that many developments in the Turkey's labour market, including rising unemployment, stagnating real wages, and the introduction of low-paid and insecure jobs, and the commodification of public services were among the contributing factors in the rising demand for consumer credit. The evidence from the fieldwork analysis supports this argument.

In conclusion, in explaining the recent rise in consumer debt in Turkey, this research offers insights into the wider processes of capitalism, and allows for an accurate

conceptualisation of the subject. While the analysis sheds light on the on-going growth of debt, it also implies what needs to be done. The recent rise in consumer debt in Turkey does not have any historical parallel and, it appears that it will continue be important into the foreseeable future. Growing household debt can be simplistically put aside by assuming that households spend without considering the limits of their income. However, this not only ignores the widespread household debt distress and the rising transfer of money from wage earners to the financial institutions, but turns a blind eye to the macroeconomic consequences of, and its association with, a marked fall in household savings. Indeed, government authorities in Turkey started to raise awareness of the risks of rapid expansion of consumer credit, as highlighted in Chapter 4. While regulatory and other reforms will most likely address this rapid expansion, there is clearly going to be a need to consider the broader set of socioeconomic drivers of the phenomenon put forward throughout this study. This dissertation shows that the so-called achievements of the Turkish economy integrating into the world markets have occurred with contradictory effects on labour that increased workers' dependency on borrowing to meet their basic needs. This analysis suggests that there is a need for labour market and social policy changes that will bring gains in real wages, greater income and employment security, a rise in household savings, and increases in public expenditures for comprehensive social services.

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