

(Re)Making Public Banks: The Case of Turkey

Thomas Marois and Ali Rıza Güngen

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Public banking institutions have been made and re-made across very different historical settings, from ancient Babylon to contemporary Turkey. But aside from their capacity to pool and mobilize money, very little connects the public banks of today to those of antiquity. Why contemporary public banks emerge, what defines their operating functions, and who benefits from public banking are context and case specific questions that usually defy generalization. There is nothing timeless about these public institutions. Rather, individual and collective agents struggle to make and re-make public banks and to define their social content, mediated by broader economic systems and socio-political structures.

So is it in developing countries. These societies' varied experiences with decolonization, state-building and class formation in their transitions to capitalism fundamentally shaped the nature of 20th century public banking. Likewise, the shift from state-led to market-oriented strategies of development continue to shape 21st century public banking.

Such is the case of Turkey. State elites created a wide range of public banks that figured prominently in Turkey's early 20th century transition to capitalist development. While retaining control of roughly a third of the banking assets today, the original institutionalized mandates of Turkey's six remaining public banks today have become overlaid with neoliberal competitive imperatives. This has generated unanticipated and complex social, political and economic contradictions that are not easily unpacked by rigid public versus private narratives.

Our argument in this chapter is that the historically shifting complexities of public banks in general, and Turkey's in particular, are best understood from a *social content* point of view. We start with a brief historical summary of public banking, followed by a discussion of three competing theoretical models for understanding bank ownership. We opt for what we call a social content perspective and illustrate why we think this helps to overcome otherwise static and polarized approaches to banking. We then turn to the case of Turkey to interpret the evolving class-based and sometimes contradictory functions of public banks in concrete terms. Although problematic, we nevertheless point to the potentiality of public banking as an alternative to neoliberal financing norms and highlight possible ways to enhance their 'public' character.

Public banks in historical context

Public-like banking institutions go back as far as 2400 B.C. In the temples of ancient Babylon and Sumer, interest-bearing credit services formed part of the society's political and economic infrastructure. Periodically, over-indebtedness or sudden natural disasters would threaten financial stability, leading monarchs to offer popular debt amnesties (Graeber 2011, 65). Similarly so during medieval times. The private Italian bankers systematized 'buy now, pay later' schemes, benefiting from very high interest rates. But in times of widespread individual non-repayment due to economic hardships, the harsh penalties could lead to popular instabilities. Italian state officials had to occasionally provide debt relief from public funds to ensure stability (an early precursor to today's public bailouts). Add to this recurrent private banking crashes, and governing officials were desperate for a stable financial alternative. This eventually led to the first modern public banks.

The first such bank materialized in Barcelona in 1401 – the *Taula de la Ciutat*, which survived some 450 years in one form or another (Spufford 2014, 245-6; Felloni 2005). A second public bank formed shortly thereafter in Genoa in 1408 – the *Casa di San Giorgio* – and operated until the early 19th century. Not until 1587 did a third public bank emerge in Venice – the *Banco della Piazza di Rialto* – as a response to a succession of private banking failures. Subsequently, public banks formed in Amsterdam (1609), Hamburg (1619) and Nuremburg (1621). In a rather different context, 18th-century British Quakers in the American colony of Pennsylvania founded a public Land Bank to collectively service farmers' credit needs (Rappaport 1996). Any returns made in this process were then channelled back into the community's public revenue.

Despite their diversity, these institutions share a common rationale of having a financial institution able to function in the public interest (broadly understood), rather than for private ends alone. Indeed, the first public banks' capacity to overcome economic instabilities, to offer accessible credits to priority economic sectors, and to provide financial services for the state apparatus (credits, payments clearing, international exchange, and so on) stand out as significant. In this way we can historically understand the emergence of public banking.

However, not until the late 19th and early 20th centuries, amid global transitions to post-colonial state independence, deepening capitalism and expanding socialism, did public banking become more commonplace, although for very different reasons. At one extreme, governments sought explicit non-market forms of finance to support nationalist aspirations and large-scale development projects, be they national capitalist, socialist, fascist or imperialist. At the other extreme, locally rooted cooperative banks emerged to offer small-scale credits and local developmental expertise (Birchall 2013).

Our interest lies with the numerous examples of public banks in developing countries, which materialized in the 20th century with varying ideological and operational orientations. For example, following a brief civil war in 1948, Costa Rica nationalized its banks to ensure the "democratization of credit" and manage national development priorities (Marois 2005). In post-1949 China the

Communist Party mobilized the People's Bank (established in 1948) to fund public infrastructure and economic development. In 1952 Brazilian authorities founded *O Banco Nacional de Desenvolvimento Econômico e Social* (BNDES), which has since undergone several transformations, depending on the political nature of the governing regime (von Mettenheim 2012). During the 1960s, Algeria, Libya, Tanzania, India and Egypt all undertook bank nationalizations, often intending them to support a national, socialist-oriented developmental policy. By the 1970s estimates suggest that in peripheral economies 65 per cent of the largest banks' assets were under public control, while in advanced economies public control reached 40 per cent of the banking sector (Levy Yeyati, Micco and Panizza 2007, 212).

It is important to elaborate why forms of public banking took root within developing market economies. In these societies, the 'fractional reserve' system served a vital role in enabling private and public banks to accept deposits and to then make loans many times over that amount (for example, one dollar held in reserves can create 10 dollars in loans). In peripheral economies where little excess savings existed, this credit-creating function meant banks could respond to a growing structural need within capitalism for access to more credit. However, because loans are repaid in the future, they carry a risk of non-payment. For private, profit-oriented banks this results in a significant pro-cyclical pattern of lending: when economic times are good, private banks lend more freely but when times were bad, they tend to restrict lending. Empirical evidence suggests private banks are the most pro-cyclical of all (Bertay, Demirgüç-Kunt and Huizinga 2014). Much as in medieval times, public authorities sought extra-market alternatives.

Public banks, even if they charge interest, have not always had a profit mandate, and could therefore lend on strategic developmental grounds, providing the potential for counter-cyclical lending against the prevailing economic tide (Butzbach and von Mettenheim 2014). It is on this basic principle that many modern governments have founded public banks; that is, to function as powerful extra-market and developmental coordinating institutions (Gerschenkron 1962; de Luna-Martínez and Vicente 2012). Public banks can fund national development and reach important segments of society, like farmers, tradespersons and cooperatives. Private banks often refuse to service these segments due to the potential lending costs, long-term commitments, and sometimes risky conditions. By contrast, for much of the 20th century profit-maximization did not define most public banking operations.

Competing views on bank ownership in market economies

Contemporary debates on banking and development are far from settled, with ownership being one of the most hotly contested issues, particularly in market economies. Three competing conceptual views stand out: the 'private interest' view, the heterodox 'developmental' view, and the critical 'social content' view. The first two share a normative concern with better managing market-oriented capitalism but apply divergent understandings of private versus public ownership. The third seeks to interpret public banks within the historical

specificity of capitalism, with a normative concern for identifying progressive alternative practices of social reproduction and the role that democratized finance might play therein.

'Private interest' views

Private interest views of banking are rooted in liberal conceptions of individual human nature and neoclassical tenets of the benefits of market competition. From Hobbesian notions of power-hungry individuals, Lockean edicts tying private property to liberty, and Smithian doctrines espousing free-exchange and individual competition, contemporary theorists hold fast to an underlying ideological proposition that states must not interfere with an individual's private property or the market's competitive functioning. Hayek (1984, 381) synthesized this liberal tradition, arguing that the coercive functions of government must be guided solely by concern for preserving peace, justice and liberty.

Liberal political economy is thus premised on the societal benefits of formally separating the public and political from the private and economic. The theoretical deductive method by which these *a priori* individualist foundations are reached subsequently render liberalism a pre-social theorization. Neoclassical economics, through its methodological individualist and deductivist approaches, is ideologically commensurate with these ideals (see Lawson 2013; Solomon 2010, 130-34). This ideological lineage enables conventional economists to assert that private ownership is inherently superior to public, driving innovation and guarding against corruption (Mishkin 2009; Shleifer 1998; Vanberg 2005). It follows that the "fundamental political institutions" of society are said to include universal private property protections and market enhancing frameworks (Calomiris and Haber 2014, 12-13, 35). This forms the backbone of neoliberalism in general and of private interest views of banking in particular.

The private interest view therefore holds that attaching anything socially progressive to public bank ownership is idealistic and naïve (Barth et al. 2006, 34-5). Rather, socially desirable ends are best reached via private actors in the competitive market; governments can at best regulate this, but ought never to interfere by directly owning banks (Barth et al. 2006, 14; World Bank 2012). This view has informed three decades of neoliberal financial policy formation, despite meagre evidence. For example, the World Bank's *Finance for Growth* report (2001, 123) stated that, "[w]hatever its original objectives, state ownership tends to stunt financial sector development, thereby contributing to slower growth." Four pages later, however, the report admits that, "[u]ntil recently, the primary evidence on this issue [i.e. government failure in finance] has been *anecdotal*" (World Bank 2001, 127; emphasis added), despite two decades of bank privatization advocacy. In this paradigm, the credibility of banks is *a priori* determined according to ownership form. Moreover, why societies might promote or preserve public banks is likewise seen as a matter of predetermined knowledge: governments control banks for corrupt political and personal gain (La Porta, Lopez-de-Silanes and Shleifer

2002, 266; World Bank 2012, 117). The nuances of history are lost to such pre-social theories.

Heterodox 'developmentalist' views

Heterodox developmental views of banking, by contrast, are generally connected to Keynesian, Weberian, and institutionalist approaches. Advocates of this broadly defined perspective support the state's extra-market coordinating capacities as necessary for managing the instabilities of capitalist development. John Stuart Mill imputed a strong normative orientation, arguing that state intervention and redistributive measures were needed to mitigate (though not eliminate) class domination within emerging capitalist relations.

For much of the 20th century public ownership and the 'machinery of government' figured prominently in heterodox perspectives. The belief that state institutions, like public banks, ought to pursue long-term developmental and socially beneficial goals dominated (Öztürk, Gultekin-Karakas and Hırsarıklılar 2010). Historically, this approach highlighted the scarcity of capital in developing countries and the unlikelihood that private banks would willingly fill the gap, thus necessitating public banking for developmental goals (Gerschenkron 1962).

More contemporary neo-Keynesian approaches have largely jettisoned concerns of class inequality (and often reject public ownership), focusing more on how state institutions may best *manage* capitalism. State–society relations are seen as separate spheres of existence, where the state maintains an independent and elitist rationality, concerned with capitalist development and social inequality in ways that are seen to transcend the competing desires of individuals and markets (Evans 1995; see also Selwyn 2015). As a result, some developmental economists have largely dropped calls for public banking, focusing instead on bolstering the state's regulatory capacity (Spratt 2009).

Since the 2008-2009 crisis, however, there has been renewed interest in public banking to support development goals (Culpeper 2012; Marshall 2010), although these heterodox developmental views still tend to essentialize public bank ownership as a rational, elite-driven program that supports an otherwise neoliberal market order. Socially progressive and substantively democratized goals tend to be obscured in this neo-developmental view.

Critical 'social content' view

A third approach to bank ownership is one that historicizes banking institutions and their operations within the context of capitalism. We refer to this as a 'social content' view, drawing on a diverse historical materialist, and largely Marxist, body of scholarship (see Hilferding 2006 [1981]; Lenin 2011 [1964]; Marois 2012, 24-35). In this approach, we recognize that the role of

banks in society long pre-dates capitalism (as noted above). Accordingly, a social content approach does not take banks as unmediated institutional derivatives of capitalist processes, and not everything about banks is explicable vis-à-vis capitalism's competitive imperatives and exploitative class relations. Different types of gendered and racialized forms of power and privilege find their way into banking institutions and their operations (Dymski 2009; Roberts 2013). These intersecting social forces are impacted by the evolving structural context of capitalism and in turn define the social logic of the market.

A distinguishing feature of our social content view is that ownership category alone does not determine how banks act (or more precisely, their personnel, managers and owners). Rather, all banking institutions are historically and socially constructed: "banks are institutionalized social relations that reflect historically specific relations of power and reproduction between the banks, other firms, the state, and labor in general" (Marois 2012, 29). These institutionalized social relationships are influenced by, but not limited to, the wider class relations specific to capitalism that impart a competitive social logic onto, without determining, individual banking operations. In short, individual and collective agencies shape the world around us, but not, to paraphrase Engels (1959, 230), in the conditions of our own choosing and not always as intended. Institutions, banks included, take form as complex hybridizations of social struggles that seldom correspond to any idealized notion (see Jessop 2002, 453; Peck, Theodore and Brenner 2012, 271). The momentarily fixed but fluctuating context-specific institutional forms assumed exist within global neoliberalization processes involving historically specific waves and patterns of market-disciplinary regulatory restructuring (Peck et al 2012, 268).

Consequently, in a social content view, all banks, be they public or private, are institutionalized varieties of neoliberalized banks today. Given our focus on public banks, the theoretical, methodological and political challenge is to investigate how specific and variegated cases are constitutive of a generalized system of neoliberal social rule while simultaneously constituting potentially significant sources of social power capable of facilitating a break with neoliberalism.

Turkey's public banks, as a particular form of banking, must therefore be assessed in their own historical terms and as reflecting often contradictory power dynamics and practices of material reproduction that may offer significant possibilities for breaking with neoliberal capitalism. It is to this context-specific study that we now turn.

A history of public banks in Turkey

In Turkey, as in many other peripheral societies, finding capital to fund the transition to post-colonial capitalism was a challenge, especially if trying to avoid deepening foreign bank dependence. One solution involved official support for domestic banks, public and private, given their capacity to pool and mobilize money as loanable capital. But as local private banks emerged

they were often too small or too integrated into specific industries to effectively fund other developmental projects and public infrastructure. Contrary to pre-social neoclassical ideas, many private banks were basically unwilling and unable to respond to Turkey's financial needs (see Kuruç 1987).

Consequently, the transition to capitalism generated a need for Turkish authorities to establish public banks (mostly large state-owned and deposit-taking commercial banks, see Table 1), which subsequently assumed an active and influential role in state- and market-building processes via politically determined developmental missions (Öztürk et al 2010, 161).

Table 1: Public commercial banks in the early Turkish Republic

Public bank	Year established	Development mission or target funding
Ziraat Bank	1863/1888	Agriculture
Emlak Bank	1927	Home mortgages and real estate loans
Sümerbank	1933	Other state-owned enterprises and industrialization
Belediyeler Bank	1933	Municipal infrastructure projects such as water, electricity, drainage, and the preparation of building plans
Etibank	1935	Electrical power generation capacity and the financing of mining and mineral marketing
Denizbank	1937	Maritime development
Halkbank	1938	Cooperatives, artisans, tradespersons and small-scale producers

Sources: BAT 1999; BAT 2009.

During the mid-1940s and 1950s, Turkey's Democratic Party government encouraged private banking as part of an economic liberalization experiment. Frustrated by poor results, however, authorities decisively turned to a state-led developmental strategy in the 1960s. The new State Planning Organization (established in 1961) worked in tandem with 10 different public commercial banks and three development banks (constituting about 70 per cent of all banking assets) to coordinate investment, decide on subsidized credits, back new industrial investments and state-owned enterprises, and allocate foreign exchange according to Five Year Development Plans (Aydın 2005, 34-5; Keyder 2000, 204; Marois 2012, 55-6). For decades, these public banks fulfilled their developmental mandates, sustainably managing any assigned 'duty losses' [defined as a claim on the Turkish Treasury derived from officially subsidized lending and the accrued interest (BAT 2001)] – that is, until Turkey's 1980s turn to neoliberalism.

Neoliberal restructuring of Turkey's public banks

By the mid- to late-1970s the so-called golden age of state-led capitalist development was in decline internationally. A series of oil shocks had hit the global economy and the US suffered from both high inflation and recession. In response, the US Treasury allowed domestic interest rates to soar, causing interest rates around the world to rise to 20 per cent or more. The consequent

1980s debt crises that erupted across the developing world helped pave the way for neoliberal structural adjustment processes globally (Glyn 2006).

Turkey was not exempt from this neoliberal transition (see Yalman 2009). The public banks' profitability and stability had begun to erode in the late 1970s, and authorities started to once again envision a greater role for private banking and finance in the country. The 1980s opened with a military coup and an authoritarian transition. Despite some initial rapid liberalization measures (triggering a costly banking crisis in 1982), authorities attempted no major bank ownership shifts. Over the next 20 years public bank control fell only by 6 per cent, from 45 per cent in the early 1980s to 39 per cent in the late 1990s (private domestic banks assets, correspondingly, grew from 44 to 50 per cent) (BAT 1999, 24).

But as the phase of capital accumulation shifted to neoliberalism so too did governing authorities' move away from public banks' developmental mandates, with lasting consequences. Amid the turbulent mid-1990s – characterized by recurrent financial crises in the global South – Turkey's coalitions began using public banks to hide government budget deficits (BRSA 2003, 10; OECD 1999, 57). Public bank duty losses exploded from 2.2 per cent of GNP in 1995 to 13 per cent in 1999 (from \$2.77 billion to \$19.2 billion) (World Bank 2000, 96). Far from being meant for developmental ideals, Turkey's neoliberal advocates used the public banks to help smooth the country's socially volatile transition to neoliberalism (Ergüneş 2008; Marois 2012, 205).

The exposure of public banking losses, and the increasingly speculative practices of private banks, triggered Turkey's own major financial crisis in 2000-2001, which opened a new phase of neoliberal deepening (Akyüz and Boratav 2003). It took \$22 billion in public funds to cover the public banks' 'neoliberal' duty losses and \$25 billion in public money to bail out the failed private banks, for a total of \$47 billion in publicly socialized losses, equalling roughly 30 per cent of 2002 GDP (Marois 2011, 178).

The ensuing 2001 Banking Sector Restructuring Program (BSRP) brought structural changes to the social content of banking in Turkey. For the public banks, the BSRP established a two-stage restructuring project that involved immediate financial reorganization and ongoing operational restructuring around market efficiency and profitability imperatives (see BRSA 2002; Marois 2012, 172-177). The political goal was for public banks to institutionalize private sector profit-maximizing behaviour, with the intent to privatize them within five years. More than a decade later, market-oriented restructuring has had the unintended consequence of making public bank functions vital to the reproduction of Turkish neoliberalism.

Turkey's public banks today

As of 2015 there were six majority controlled public banks remaining in Turkey – three large commercial and three small development banks. The three commercial banks (Ziraat, Halkbank and VakıfBank) are among the top 10

largest banks in Turkey, which in 2014 together controlled 28 per cent of the sector's assets (nearly US\$227 billion) (BAT 2014, I-12, II-234). The public development banks (Kalkınma, Eximbank and İller) control an additional 2 per cent of the banking sector's assets, specializing in development and infrastructure funding.

All of Turkey's public banks are joint-stock companies in which different state or governing authorities own controlling shares. Ziraat and Eximbank are fully owned by the federal government and the Turkish Treasury holds 99 per cent of Kalkınma Bank shares. İller Bank is also fully public but controlled by Turkey's provincial, municipal and village authorities. VakıfBank is a special case as a cultural branch of the state, the Foundations Directorate, has controlling ownership on behalf of thousands of individual non-profit foundations (e.g. heritage sites) and has been partially privatized since 2005. Halkbank has had its shares transferred to the state's Privatization Administration (which receives dividend payouts from Halkbank's yearly returns). Two public offerings have sold off almost 50 per cent of its shares.¹

In all these cases Turkish state authorities retain controlling shares, and this offers a *potentially* powerful lever of domestic extra-economic coordination. Such potentiality is not embodied in public ownership itself but depends on the contending, and often contradictory, political struggles and economic processes that shape the public banks' functions. Looking at the period after Turkey's 2001 crisis, and specifically during the 2008-09 crisis, five potentially powerful functions are outlined below. These include: extra-market financial coordination; support in times of crisis and stability; access to finance; a savers' safe haven that at the same time provides an alternative source of funding; and efficiency. The contradictory social content of these functions are subsequently highlighted.

Extra-market financial coordination

Through Ziraat and Halkbank in particular, Turkish authorities can direct subsidized credits through what is now termed 'income loss' payments, which are direct government transfers made to these banks in compensation for providing low interest credits (PER 2008, 15). For example, in 2004 the AKP (*Adalet ve Kalkınma Partisi*, or Justice and Development Party) government sought to boost agricultural production by enhancing financial supports. To this end the government permitted Ziraat to reduce certain agricultural interest rates by 25 to 100 per cent of the market rate, compensating the banks for the 'income losses' this entailed (PER 2008, 134). Ziraat's income loss transfers reached TL565 million in 2011 (roughly \$340 million) (PER 2012). These supports, as but one part of a complex set of inputs, helped farmers to more affordably invest in increasing productive capacities. The direct government transfers, at the same time, kept the public banks on sustainable financial footing. Halkbank, too, offers subsidized credits to cooperatives, small and medium enterprises (SMEs), trades, and so on to help boost domestic production. Halkbank income losses reached nearly TL250 million (roughly

¹ For details on bank privatizations, see the Turkish Privatization Administration website:

\$150 million) in 2011. Cheaper loans help these businesses fund technological upgrades and productive expansion, giving them a competitive edge.

It is worth noting that the Treasury's loss payments represent the subsidized interest rate costs alone, so the actual credits granted by the banks are considerably greater than the income loss amounts noted above. While such support can flow through the private banks, the geographical reach, institutional structure, and funding expertise of Ziraat and Halkbank enable a smooth roll out of these supports.

The public banks can also support long-term infrastructure financing. For example, Halkbank can offer subsidized loans to municipalities with a letter of guarantee from the public development bank, İller Bank. In such cases, Halkbank may neither receive an official subsidy nor make a return on the loan; rather, Halkbank can cross-subsidize the cost from earnings made elsewhere (confidential author interview, Halkbank, senior regional manager, June 2013, Samsun). In such ways political authorities can directly intervene in the provisioning of credits to priority sectors.

Support in times of crisis and instability

The extra-market coordinating capacity of public banks can become strikingly apparent in times of crisis and instability, especially if private banks withdraw lending and call in existing loans to protect profits and reduce risks (as occurred during the 2008-2009 crisis in Turkey). By contrast, Turkey's public banks – including Ziraat, Halkbank, VakıfBank, İller and Kalkınma – acted counter-cyclically by expanding their loan portfolios in response to the crisis. For example, from September 2008 to June 2009 (the peak of the crisis) Ziraat offered TL5 billion of a total TL7.5 billion in new loans (from both public and private banks combined) while also offering special repayment terms (Ziraat 2010, 13-14, 27). In 2009, VakıfBank (2010, 18) reported increasing loans by 13.22 per cent, and Halkbank (2010, 5) by 25.6 per cent. Ziraat's General Manager, Can Akın Çağlar, wrote in the bank's Annual Report that this was a matter of “social responsibility ... in order to minimize the pressures of economic recession on our farmers” (Ziraat 2010, 14).

Likewise, Halkbank senior management directed branch managers to increase lending and to support Turkey's substantial SME sector (confidential author interview, June 2013, Samsun). Public banks can also offer unique support at times of individual crisis. According to one Ziraat branch manager, the private banks have few loan limit ceilings and they charge much higher interest rates, whereas Ziraat sets limits and charges lower rates; moreover, when people have trouble repaying their loans, Ziraat does not immediately repossess their property but “allows people time to sort out their problems” (confidential author interview, April 2013, Istanbul).² In other words, corporate profit imperatives are not always the be-all and end-all of banking operations, even under neoliberalism.

² See Önal (2013) for a discussion of related changes in the agricultural loan market.

Access

While many developing countries today struggle with providing access to credit and payments services on a smaller scale outside urban centres – apart from the recent, costly and ethically questionable private micro-finance schemes (see Bateman 2010) – Turkey's public banks have been present in towns and villages for decades. Nearly 3,400 branches help constitute a nationwide financial infrastructure, notably providing rural services that most private banks, and especially foreign banks, eschew due to fixed capital and staff costs. More than 400 Ziraat branches are in small localities where no other banks are present (Ziraat 2010, 23-4). At the same time, state authorities make use of Ziraat's infrastructure to distribute various social supports, pensions and payments to individuals nationwide, without having to pay commissions to the private banks. Extra-market coordination and support in time of crisis go hand in hand with physical accessibility and social benefits.

A saver's safe haven and alternative funding

Turkey, like most emerging capitalisms, has had its share of banking crises and is prone to financial instability. Consequently, people often turn to public banks as safe havens for their savings because of implicit or explicit state guarantees backing public banks. It follows that public banks can attract high levels of individual deposits. This was evident during the 2008-2009 crisis: Ziraat's deposits grew by 17 per cent (2010, 14), Halkbank's by over 9 per cent (2010, 5), and VakıfBank's by over 13 per cent (2010, 18). In 2013 Turkey's public banks reported handling over 70 million savings accounts, which is nearly half of all the bank accounts in Turkey (BAT 2014, II-242). At the same time the public banks' deposit base is augmented by state authorities requiring Turkey's public sector entities to channel deposits and payments through them. In total, domestic savings can offer up to three quarters of the public banks' funding base, constituting an important source of capital less reliant on world market booms and busts (BAT 2009, 71-4; BAT 2012, I-6).

Efficiency

Historically, Turkish public banks have been financially efficient, earning returns on assets (ROA) of around 1 per cent prior to the 1980s (BAT 2009, 98; 183). The neoliberal transition brought peaks and valleys but the public banks maintained an average of one to two per cent ROA until 2001. Since 2001 they have oscillated between 1.5 to 2.5 per cent ROA, equalling or bettering the private banks' ROA levels of 1.3 to 2.4 per cent, while pulling in billions in extra public revenue (BAT 2002-2014 various years).

As a former Undersecretary of the Treasury once acknowledged, the economic sustainability of Turkey's public banks undermines much of the mainstream case for bank privatization in Turkey (confidential author interview, August 2007, Ankara). Indeed, recent empirical analyses of Turkey's private (foreign and domestic) and public banks suggest that the

latter are the more 'efficient' banks (Aysan and Ceyhan 2010; Kök and Ay 2013). The public banks, moreover, duly pay their taxes and recycle their earnings back into public revenues thereby having helped to reduce Turkey's public debt by a range of 0.6 to 1.2 per cent per year from 2006 to 2010 (IMF 2012, 63). From this vantage point, public banks can offer a cost-efficient and powerful public policy tool.

The social contradictions of Turkey's public banks

These functions performed by Turkey's public banks are not without social and class contradictions. From the perspective of the average household, SME or farmer, the public banks' extra-market financial coordination and support at times of crisis may be the difference between survival and destitution. This is a genuinely socially progressive function, and one that neoliberals abhor, fearing distortions in market-based creative destruction processes. Yet from the systemic vantage point of capitalist reproduction, such supports may also offer the most fiscally cost-effective way of maintaining the legitimacy of neoliberal development strategies, given the specificity of Turkey's volatile peripheral political economy. For private banks, increased public bank lending during a crisis releases pressure on them to lend and better protects their own returns. For the current neoliberal authoritarian ruling AKP government, the public banks have been used to push their conservative agenda (via, for example, opening new Islamic lending branches) but without democratizing the public banks' operations.

Issues of access and savers' safe havens are likewise socially contradictory. People require credit and payment services to participate in contemporary society, in addition to needing a safe place to secure whatever money they might possess. Yet saving integrates and implicates individuals and households into the prevailing strategy of financial development in ways that engrain creditworthiness and debt discipline. Moreover, banking systems in developing countries can and have been used to transfer money resources from the already capital poor areas (rural, farming) to already capital rich areas (urban, industrial) in support of capital accumulation. Ziraat Bank, for example, has opened a new 'gold savings account' to draw in traditional 'under the mattress' savings held in real gold in order to draw these private resources into market processes. Finally, the mass of deposits held in the public banks have gone to easing periods of neoliberal crisis as they erupt, thus helping neoliberal social rule overcome periods of economic and social uncertainty.

Under neoliberal finance capitalism, therefore, public banks are Janus-faced. On the one hand, there is no doubt that public banks offer important functions often unavailable from private banks, and these can have real and significant benefits for individuals, households, firms, and even society at large. Yet on the other hand, by helping to overcome the instabilities and inequalities generated by capitalism, public banks help reproduce the exploitative social conditions of capitalism that have led to the very problems that public banks are called on to help resolve. This appears to be the case in Turkey since 2001, where political struggles over the social content of the public banks

appears to have yielded a cost-effective solution to reproducing unequal class relations.

Yet the story does not end here, for the social content of public banks remains malleable, even if in the current historical conjuncture this content is heavily subject to neoliberal rule.

The struggle for public banking alternatives

The functions of Turkey's public banks have evolved over time, given the specificity of Turkish society and the shifting structural context of capitalism. Almost certainly the public banks will further evolve, and their social content will remain open to contestation.

The stakes are high. The current phase of neoliberal finance capitalism in societies such as Turkey acts against popular and working class aspirations because the interests of domestic and foreign financial capital are deeply fused into the state apparatus, guiding the priorities and actions of state managers and government elites, often to the detriment of labour (Marois 2012, 10). This defining social content represents the culmination of three decades of anti-worker and finance-led neoliberal transformation processes. This, too, has influenced the public banks to the extent that they can help to reproduce finance capitalism and associated class relations in their very functioning, despite offering important economic respite to individuals, households, farmers, cooperatives, and SMEs. These contradictory functions belie any strict correlation with either developmental or private interest theories of bank ownership.

Adding further complications and contradictions, the ruling AKP government is firmly committed to privatization, having sold off far more SOE assets in the first years after coming to power in 2002 than all Turkish governments in the previous 20 years combined (Öniş 2011), although the trend has been slow in the banking sector. While partial bank privatizations have occurred, the state retains controlling ownership levels over all the public banks. The main opposition, the centrist CHP, has a party program critical of the AKP's rapid privatizations but nonetheless supports many SOE sell-offs (if they appear to increase efficiency and competition in neoclassical terms). That said, the public banks generate a lot of public revenue and offer an important economic stabilizing force. Any government, however neoliberal, will find it difficult to privatize their public banks in this context. It is perhaps through these contradictions that the public banks – given their substantial institutional and material capacity – prevail in neoliberal Turkey.

This raises an important question for progressive social forces: Should public banks be defended? From a critical social content view, the answer is 'yes', regardless of the public banks' social contradictions. Given the massive structural power of global finance today, and its class interests tied to reproducing capitalist exploitation, any financial alternative must not be lightly discarded. Public banks are *potentially* significant sources of progressive social developmental power. Moreover, should these banks be sold-off to

private corporate entities then these public bases of material capacity would shift to the private sector, which extends and deepens class-based competitive profit imperatives in society. It is thus vital that existing public banks be defended from their most immediate threat, that is, corporate privatization. In today's context, public banking capacity may well be a necessary, if not sufficient, condition of any initial break with neoliberal social rule. Their potential, progressive 'publicness' may yet need to be reclaimed, however.

Drawing on the case of Turkey, we can highlight some additional strategic lessons for public banking and alternative finance (see Marois and Gungen 2013, 19-20). First, any collective defence of public banks must not rely solely on legal or constitutional challenges, but must rather seek to build new social bases of support. Collective organization within the public banks is one example of how to reshape and reclaim the institutionalized social content of the banks, especially if done in solidarity with other private banking sector workers. Furthermore, because any challenge to the hegemony of private, profit-oriented finance will face a well-coordinated and malicious response on behalf of capital, political support must be fostered across society. One potent means of garnering public backing would be to demonstrate the actually existing functions and practices of public banks that support the public good, from preferential lending terms to funding public services and infrastructure. To this end more research and popular outreach is required.

Perhaps most importantly, the struggle to defend public banks must ultimately be a struggle to democratize their social content and institutionalized functions. There is no popular benefit in having strong public banks that are susceptible to political and personal abuse or that function to reproduce capitalist social relations. The struggle for public banks may have to evolve into a struggle to supersede public ownership with new forms of collective and cooperative bank ownership and control. Here again radical scholarship can play an important role in understanding such potential alternatives. Existing and potentially progressive public (and cooperative) banking functions need excavating, while conventional academic discourses that constrain progressive possibilities need demystifying, and practical alternatives to the hegemony of private finance and profit-maximization need elaborating.

Any alternative to neoliberal finance capitalism is, of course, a complex and multifarious endeavour. Strategizing around the (re)making of public banks and their social content is a crucial element.

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