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Neoliberalism and Financialization in Turkey

Hakan Yilmaz
CUNY Graduate Center

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by

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Abstract

This paper summarizes the process of financialization under the neoliberal restructuring of the Turkish economy. First, it discusses the political and economic context that led to the restructuring. Then, it elaborates the first stage of Turkish neoliberalism and financialization under the ANAP government, and the various coalition governments throughout 1990s. Then, it describes the second stage of this process under the Neoliberal Populist regime of the AKP government. Finally, it tries to locate neoliberalism and financialization in the country's long-term capitalist development. In this context, the paper aims to display the connection between Marx's tendency of the rate of profit to fall and the neoliberal restructuring of the Turkish economy.

[*] Hakan Yilmaz is a first year PhD student in Sociology at the Graduate Center and Adjunct Lecturer in Economics at John Jay College.

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Introduction

The world economy has gone through drastic structural changes since 1970s. The period defined by these changes has been often referred to as neoliberalism. Harvey describes neoliberalism in the following;

> Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices… Furthermore, if markets do not exist … then they must be created, by state action if necessary. But beyond these tasks the state should not venture. State interventions in markets (once created) must be kept to a bare minimum because, according to the theory, the state cannot possibly possess enough information to second-guess market signals (prices) and because powerful interest groups will inevitably distort and bias state interventions (particularly in democracies) for their own benefit. (Harvey 2007, 2)

One of neoliberalism's primary tenets have been the financialization of the world economy. As Harvey states in *Neoliberalism*, "Neoliberalization has meant … the financialization of everything. This deepened the hold of finance over all other areas of the economy, as well as over the state apparatus …" (Ibid, 33) Although the ideological project of neoliberalism argued for minimization of the role of the state, the financialization of the world economy and the volatility of the financial markets, increased the role of the state in the economy. At the same time, it is important to note that the role of the state in relation to international financial markets, domestic capital and the working class is also historically specific to the nation state one aims to discuss, despite the presence of a global trend towards neoliberalism and financialization in this period. For this paper, I will explore the neoliberal transformation of Turkey and focus specifically on the country's financialization since the late 1980s.

Turkey's neoliberal restructuring began with the coup of 1980 following a decline in manufacturing profitability, which was informed by a decade of political instability - domestically and internationally, throughout the 1970s. The changes enacted following by the military dictatorship and the ANAP government in the following years transformed the country's financial system, trade policy, political terrain and the dynamics of class conflict between the workers and capitalists. In the first section I will briefly discuss the political economic conditions that gave rise to the neoliberal restructuring of the Turkish economy.

Broader financialization of the Turkish economy took off following the liberalization of the country's capital account in 1989. Throughout the 1990s, until the Justice and Development Party (AKP) came to power in 2002, the financialization process was led by an influx of speculative investments in the form of state borrowing and caused a lot instability in the country's economy. Following the 2002 snap elections, AKP came to power and the primary terrain of financialization had shifted to the banking sector and consumers. The second section will describe these two distinct neoliberal regimes before and after 2002.

Neoliberalism and the financialization that took place during this period must be understood within the framework of long waves of capitalist development. The third section will aim to identify the country's economic transformation since 1980 within the context of the history of Turkey's capitalist development. This section suggests that financialization itself can be seen as a reaction to a decline in manufacturing profitability and easier access to influx of foreign investments during this period. I will conclude by summarizing the findings of the paper.

Political Conditions for Neoliberalism

Neoliberal transformation of the Turkish economy can be described in two distinct stages. The first stage of neoliberalization took place following the coup d'état of 1980 and lasted until 2002. Before we look at the economic transformations under neoliberalism it is important to summarize turbulence in Turkish politics throughout the 1970s as the consequences of these conflicts created the political terrain for the restructuring.

The coup of September 12, 1980 was claimed to be prompted by the conflict between violent right-wing militias, which were legitimized and used by the conservative governments of the 1970s, and the working class and left-wing movements that had grown relatively strong in the 1960s and 1970s.(Karaveli 2018, 163-170) The strength of the left in the period can be seen by the growth of the Turkish Labor Party (TIP) which was the first socialist party to enter the Turkish Grand National It won nearly three hundred thousand votes or 3% of the vote in the 1965 election. (Benlisoy 2018) TIP was later banned following the 1971 coup for its acknowledgment of the Armenian Genocide and the Kurdish conflict and its leaders were arrested, which led to a fragmentation among the left throughout the 1970s. By the mid 1970-s 'revolutionary' left-wing groups that split from TIP were engaging in armed conflict with right-wing militias backed by the government. As Benlisoy puts it;

> One major factor that determined the fate of the Turkish left during those years was the violent clashes with the extreme right that erupted especially from 1975-1976 on, first in universities and then in several areas around the country. These clashes sometimes followed religious (Sunnite-Alevi) or ethnic (Turkish-Kurdish) divisions, with the left being disproportionately strong among ethnic and religious minorities, and caused around 5,000 deaths. These were part of a "tension strategy" deliberately pursued by the Turkish state. In the context of the successive governments' inability to re-establish order despite the declaration of a state of emergency in many cities, the army allowed the situation to deteriorate so that it could intervene and style itself as the restorer of order which was being threatened by "communists." … So when the military coup happened in September 1980 there was no massive resistance to it and leftist cadres and political organizations found themselves rather isolated. Thus, the military junta suspended rather easily all political and trade union activities and rounded up tens of thousands of political activists. (Ibid)

During the same period, the memberships for the two largest trade union confederations, The Confederation of Turkish Trade Unions (TÜRK-İŞ) and The Confederation of Revolutionary Trade Unions (DISK), grew by hundreds of thousands and nearly reached a million.(Baydar 1998) Unlike TÜRK-İŞ, DİSK prioritized radical class politics and contributed to the rise of strike activity between 1965-1979. The number of strikes peaked in 1979 as nearly a hundred thousand workers went on strike. It is important to note that the growth of union density and strike activity stagnated periodically as the state and the leadership of TÜRK-İŞ periodically cracked down on radicals and revolutionaries within the labor unions. (Millioğulları 2007, 33-58)

The coup of 1980 was also supported by the US government, who feared that the growing strength of the CHP under Bulent Ecevit could divert Turkey's international alignment from US interests.(Karaveli, 170-187) Although Ecevit won two elections throughout the 1970s, his governments failed to remain in power for long, as he was forced to form unstable minority governments due to his inability to win with an overall majority. In 1978, Ecevit achieved the largest electoral victory of the CHP since Turkey began to have open elections. Under Ecevit's leadership the Kemalist/Nationalist CHP moved in a social-democratic direction during the 1970s, as it was pressured by the growing left-wing movements on the ground and was contending for the support of DİSK. The concerns regarding Ecevit's politics and Ecevit's criticisms of the NATO at the time made him a natural opponent of the US imperialists interests in the region.

The coup and the following military dictatorship had been detrimental for the left-wing movements in the country. All political parties and trade unions were banned and strikes were criminalized between 1980-83. (Millioğulları 2007, 94) This provided fertile grounds for the first wave of neoliberalization that started under the military dictatorship and continued under its successor the Motherland Party (ANAP). The organic relationship between these two regimes can be seen in the fact that the deputy prime minister appointed by the military dictatorship, Turgut Özal, became prime minister with his party ANAP after the end of the dictatorship and maintained austerity policies as well as policies that suppressed wages. (Karaveli 2018, Anderson 2008, Benlisoy 2018, Akcay 2018) Although all the trade unions were banned following the coup, the labor movement recovered by the late 1980s and early 1990s. The number of union members passed 1.5 million in 1990 and number of strikes rose to historic highs in 1989-91 as nearly three hundred thousand workers went on strike during this period. (Baydar 1998, 23-35)

While the 1980s were largely dominated by the neoliberal transformation carried out, first by the military dictatorship, and later by the following ANAP government, the 1990s turned out to be much more unstable as a result of the intensifying conflict between organized labor and the neoliberal market forces. During this period, ten coalition governments attempted to reconcile this conflict.

Alongside the intensifying class conflict between the workers and the neoliberal forces, the conflict between the sections of the capitalist class also intensified throughout the 1990s. In 1994, Recep Tayyip Erdogan was elected the mayor of Istanbul with the Welfare Party. The Welfare Party was a party of the National View movement, a party that promoted political-Islam. The National View movement first became prominent in the 1970s as an anticommunist Islamist movement, but its leaders were banned from politics between 1980-1987 following the coup. (Anderson 2008)

As the Welfare Party and its leader Necmettin Erbakan continued their rise through coming to power with a coalition government after the 1995 general elections, the tensions between the secular section of the capitalist class that had ruled Turkey for nearly four decades and the rising Islamist section of the capitalist class continued to escalate. These tensions eventually resulted in a military memorandum in 1997 that led to the resignation of the Welfare Party government. The military was claiming to defend the secular value of the republic against the Islamists. (Özdal 2019) This conflict between the secularist sections of the military and the capitalist class, and the Islamists would continue throughout Erdogan's regime in the 2000s. Turkey's economy remained unstable throughout most of the 1990s as a result of these inter-class and intra-class conflicts, as well as the financialization of the country's economy.

Following the economic crisis in 2001, for nearly two decades, Turkey has gone through drastic social, political and economic changes. These changes took place under the political regime of the AKP. The AKP came to power in 2002 following the worst economic crisis in the country's history. Breaking from the Welfare Party, AKP's cadre and its leader Erdogan expanded their base among the secular sections of the capitalist class and the middle class who were traditionally opposed to Political Islam. This was largely due to AKP's broad embrace of neoliberal policies and broad grassroots support.

The AKP regime also expanded its popularity among the working poor of the country even though its economic program mostly consisted of standard neoliberal policies like austerity. Unlike the previous iterations of right-wing politics in Turkey which stemmed from the political and military bureaucracy, at the time the AKP represented a true grassroots movement which eventually evolved into a massive patronage network. (Anderson 2008) This was fueled by the specific welfare regime that was pursued by Erdogan and the AKP throughout their rule. This regime extended some of the essential social services like healthcare to the working poor of the country while also making credit easily available to them. According to Umit

Akcay, the expansions of social services that took place were "welfarist in orientation but with a significant neoliberal twist" where welfare was to be a privilege, not a right. As they offered support for the poor, they also "worked to erode the idea that social support was a social obligation." (Akcay 2018)

Another shift that affected the AKP's popularity among the working poor was the deunionization that took place under the Erdogan regime. This came through privatizations of SEEs and the legalization of part-time and temporary employment which helped liquate much of the unionized labor force. (Akcay 2018) This led to the atomizing of the workers and eventually increasing their dependence on the credit and the welfare system ran by the AKP. Akcay calls this marriage of neoliberal policies with a distinct welfare regime under the AKP's rule 'Neoliberal Populism.'

In summary, neoliberal Turkey was defined by two distinct political hegemonies – first the military dictatorship and ANAP, then the AKP, with a turbulent transition period in the middle throughout the 1990s. The repression of the labor movement and the left throughout the 1980s enabled the suppression of wages and removed potential obstacles for the countries further integration into the global economy and the financial system. In the early 1990s the labor movement returned as the number of strikes and union density began to rise again. This, as well as the growth of the National View movement caused turbulences within the political system which triggered a variety of financial and economic crises throughout the 1990s. Following the crisis of 2002, the AKP combined neoliberal political economic framework with the Islamist politics of the National View movement and consolidated power throughout the 2000s. In the following section I will review the economic transformations that took place during these periods in a more in-depth manner.

Financialization

According to Akcay, the coup "inaugurated a change in the national economic strategy away from the import substitution industrialization (ISI) policy that had been in place since the 1960s to a strategy based on exports." (Ibid) This change was attached to a larger shift towards a neoliberal model which included "liberalization of trade and interest rates, privatization of State Economic Enterprises (SEEs), and the cutting of agricultural subsidiaries." Akcay states that, these policies were followed by free capital inflows and outflows that were allowed by the liberalization of the capital account in 1989. The Turkish economy became vulnerable to speculative attacks from international finance capital through its integration into the international financial system. Turkey's financial integration was actively supported by the IMF and the World Bank. This first stage of financialization took place largely throughout the 1990s and would be a destabilizing factor for the country's economy until 2002.

Neoliberalism, and the financialization that took place throughout Turkey's neoliberal transformation, must be understood within the framework of long waves of capitalist development. I will describe this in the last section. Neoliberal Populism can be described as the second stage of neoliberalization. There are two distinct processes of financialization before and after the 2001 crisis, as the neoliberal structuring of the economy switched gears.

As a result of a decline in profitability that resulted from the global "stagflation crisis", an increase in capital intensity in production, the rise of organized labor, and a series of social and political crises during the 1970s, Turkish capitalism began to go through a neoliberal restructuring starting with the military regime that came to power with the coup d'état of 1980. This restructuring succeeded in recovering profitability until the middle of the 1990s. But the return of militant organized labor in the late 1980s and early 1990s put pressure on the government to pursue redistributive policies which slowed down this recovery in profits. At the same time, following decree number 32 in 1989, "the fast capital account liberalization without fiscal adjustment"(Ongan 2011) that took place increased the instability of the country's financial system and led to multiple crises between 1994-2002. Neoliberal populism can be seen as a model that relatively stabilized Turkey's financialization following the economic crisis of 2002 until it began to collapse in 2015-16.

The first stage of financialization largely took place between 1989-2001. This process started with the liberalization of the capital account in 1989. After 1989, foreign capital flows were encouraged by higher interest rates.(Aydin 2004, 109) This led to high instability in the domestic asset markets and triggered the economic crisis of 1994. The capital inflows during this time led to currency appreciation and hence made exports more expensive. According to the IMF data the lira/dollar exchange rate increased from $0.001 to $0.03 between 1988-1994. (International Monetary Fund 2017) At the same time the interest rates government bonds and treasury bills continuously increased from 39% in April 1989 to 159% in May 1994. (International Monetary Fund 1985) This, as well as the high interest rates, slowed down economic activity in the manufacturing and increased financialization. The financialization increased the country's trade deficit from 3.5% of the GNP in 1985-1988 to 6% of GNP in 1990-1993. Government borrowing also rose from an average of 4.5% GDP during

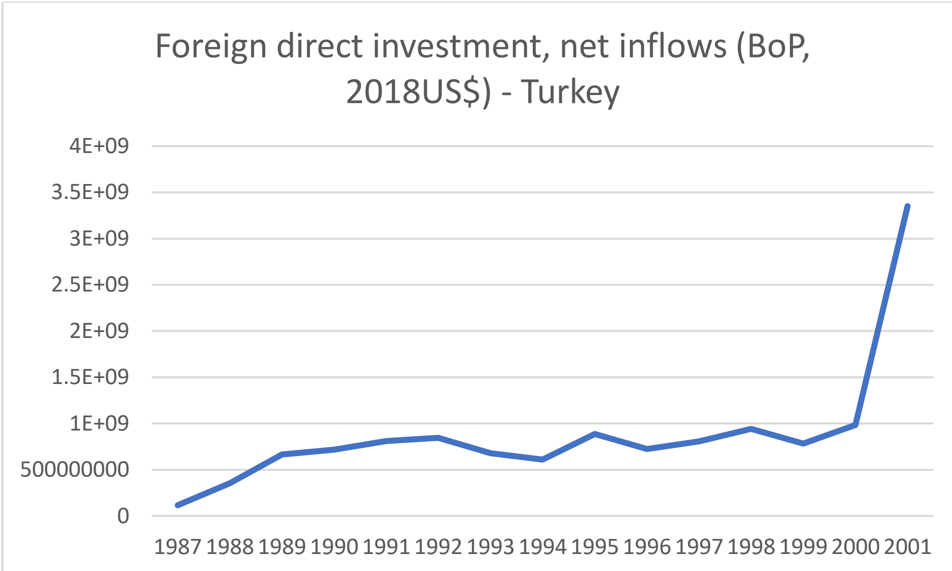
1981-1988 to 8.6% between 1989-1997.(Aydin, 115) The first stage of financialization was largely led by the government through public sector borrowing.

Two types of sources have been important in public borrowing; “international financial markets and internal borrowing by the state.” Most of the state borrowing was done through short-term high yield bonds, hence they encouraged short-term financial speculation. This frenzy of short-term government bonds also shifted some investments away from the productive sector into speculative activities. Aydin states that according to a 1995 study by the Istanbul Chamber of Industrialists a significant portion of the profits in the productive sector originated from activities outside production. (Ibid)

Due to the way the Turkish tax system worked, the tax revenues were largely raised from small-income taxpayers through regressive taxes on goods and services. According to OECD, taxes on goods and services as a share of the tax revenue increased from 28.2% in 1989 to 40.1% in 2001 while the OECD average remained stable around 30% during this period. (OECD) This restricted the government budget and spending. In the early 1990s, because of the limitations brought by the tax system, the government relied heavily on international borrowing to finance its spending. During this period, government spending on consumption expenditures increased from 7.6% of GDP in 1988 and to 13% in 1991 due to the political pressures by organized labor, particularly in the public sector. (World Bank national accounts data, and OECD National Accounts data files. 2018) This reaction by organized labor was caused by the fact that the labor share of income had declined for nearly a decade during the 1980s when labor unions were either banned or heavily restricted.

Government spending fueled by large financial inflows through short-term borrowing increased the rate of growth in the economy but also increased government debt significantly. As the amount of foreign debt piled up, investor confidence went down and reduced the inflow of financial capital towards the middle of the 1990s. Figure 1 shows that the inflow of foreign direct investment. (World Bank 2018) FDI slows down towards the middle of the 1990s due to the volatility of Turkish economy caused by high levels of public debt and rises inconsistently in the late 1990s. Figure 2 shows the government debt as percentage of GDP throughout the 1990s.

Figure 1



Source: World Bank

Figure 2

Source: World Bank

The 1994 economic crisis was triggered by rapid decline in financial capital inflows which resulted from the rapid rise in government debt. The government debt rose due to low tax revenues, high interest rates and excessive internal and international borrowing by the government that was prompted by pressures from below for redistributive justice.

Since much of the growth prompted by this regime was not reflected in the productive sector, imports' role in the economy increased while exports did not rise at the same rate. (Aydin 2004, 116) As a result, the country's trade balance also worsened. The worsening balance of payments led to a reduction of Turkey's credit score by credit agencies like Standard and Poor's and Moody's. (Ibid, 117)This contributed to the reduction of the inflow of short-term capital and exacerbated the crisis.

Following the slowdown in FDIs, the government decided to implement a stabilization program. The program was called "April 5th decisions." The stabilization program put the weight of the shrinking economy largely on labor. Due to decline in output and employment, labor's share of total factor incomes dropped to 26.5% in 1994 from 36.8% in 1992.(Ibid 118) The government suspended new hires and partially privatized publicly owned businesses like Erdemir, Tüpraş, Petrol Ofisi, Petkim, THY, Turban. (Inam 2013, 60) Sections of the business community were spared from the effects of the crisis since they had already moved a share of their investments into government bonds. Aydin states, the share of non-operational profits of Turkey's 500 largest industrial firms increased from 33.3% in 1990 to 54.6% in 1994.

According to Aydin, the stabilization program devalued the Turkish Lira, reduced government spending temporarily and raised taxes. This led to a reduction in government debt. (Aydin 2004, 119) The devaluation of the currency increased exports temporarily but this came to a halt in 1996 when a rapid inflow of speculative capital increased the value of the Lira. The state once again began to borrow extensively offering high interest rates. He states, "Net gains from interest on the US dollar rose from 17% in 1993 to 46.8% in 1995." The stabilization program also failed to reduce inflation which "sailed above the 100 per cent mark in the second half of the 1990s." The increase in public spending combined with privatization program of the government in the following years also led to unmanageable debt servicing. Hence, the stabilization program failed to stabilize the economy.

Having foreseen the crisis that might result from rising public debt, high inflation and the inflow of speculative capital, the government tried to introduce measures to prevent it. After failing to control inflation, the government presented two letters of intent to the IMF in April 1998 and December 1999. (Ibid) IMF promised no money in response to these letters. However, the government "granted the IMF the authority to inspect the economy at three-month intervals." (Ibid) At the same time, 1998 saw the largest wave of privatizations up to that point with the government privatization nearly a quarter billion dollars of assets in the first three months of the year alone.

(Anon 1998) The 1999 disinflation program aimed to cut own inflation to single digits by 2002 largely through cutting public spending and imposing exchange rate targeting. These measures were accompanied by structural reforms that included privatizations and changes in the social security and banking systems.

The exchange-rate based disinflation program aimed to set a *nominal anchor* which would control the depreciation of the Turkish Lira while allowing for disinflation to take place. The aim was to allow for only 20% depreciation of cumulative exchange rate by 2000.(Aydin 2004, 120) But this policy also meant the elimination of exchange rate risk, which encouraged more foreign capital inflows and contributed to the appreciation of the domestic currency. External borrowing increased drastically while foreign debt soared. Foreign debt increased from $96.89 billion in 1988 to $103.34 billion in 1999 and $117.84 billion in 2000. (Ibid) Resulting from rising foreign capital inflows, GDP growth increased from -4.7% in 1999 to 7.2% in 2000. The inflow of foreign capital "ensured the expansion of domestic liquidity but also financed the current account deficit." (Ibid) Between 1999 and 2000 imports rose by 35.9% while exports only rose by 7.9%. (Ibid)

Another component of the disinflation program was lower interest rates. The government expected a rise in productive activity as they lowered interest rates, but this never came to be because a section of productive enterprises had already shifted their investments into the non-productive sector. Instead the lower interest rates, and the appreciation of the Turkish currency, led to a significant rise in the import of consumer goods. This was driven by an expansion of consumer credit fueled by the foreign capital inflows and low interest rates. This increased prices further than exchange rate target and led to a further appreciation of the Turkish Lira which resulted in imbalances in the trade balance.

According to Boratav and Yeldan, the crises of November 2000 and February 2001 "emerged as a consequence of the deflationist policies imposed by the IMF."(Boratav and Yeldan 2001, 13) The deflation program's success depended on strong foreign currency reserves in the country since its central instrument was the manipulation of the currency exchange rates. Since these reserves were lacking, the government was dependent on external borrowing and by the end of 2000 a problem of excessive public debt emerged. As a result of this, capital left the country very rapidly once again which led to liquidity shortages. Boratav and Yeldan argue that the crises resulted from the government's willingness to pursue the policies of exchange rate targeting. (Ibid)

On the other hand, according to Aydin the underlying cause of the crisis was "the extreme fragility of the financial system."(Aydin 2004, 122) While the government policies did contribute to the crisis, the crisis was driven by the exposure of the country's financial system to unregulated inflows and outflows of financial capital. Turkey had been operating within an extremely fragile financial system throughout the 1990s. Turkish economy had a ratio of short-term foreign debt to the Central Banks international reserves over 100 percent since the liberalization of the capital account in 1989. (Ibid) The disinflation programs allowed huge amounts of financial inflows and increased this ratio to 145 percent in 2000, the highest value since the eve of the 1994 crisis. (Ibid) This once again led to a rapid outflow of short-term financial capital and created a crisis. The solutions that came after November 2000 only postponed the crisis which returned to become the most severe crisis in the country's history in February 2001.

Financialization under the AKP

Following the crisis in 2001, the political parties that were in power lost popularity very rapidly. (Fisher 2002) In the 2002 snap elections, all the parties that were in the parliament were voted out and Erdogan's AKP won a majority. AKP's economic regime was neoliberal at heart but followed different strategies from the previous governments. According to Umit Akcay, AKP's neoliberalism was characterized by three types of policies; "tight monetary policy, now made possible by the newly independent Central Bank; the liberalization of labor markets; and the privatization of state enterprises."(Akcay 2018, 7) Throughout the 2000s, Erdogan's AKP managed to stabilize the country's financialization process through weakening the labor movement and hence also reliving the redistributive pressures the governments faced throughout the 1990s. It also extended the process of financialization to the working poor through various financial inclusion mechanisms.

Erdogan also had to overcome the conflict between the secularist forces that had forced his predecessor Erbakan out of office in 1997. Early on he did this through supporting Turkey's membership process to the EU – which helped him gain support among secular sections of the upper and middle classes - and supporting the IMF program imposed on the country after the 2001 – which helped him gain the support of international technocrats. (Özdal 2020, Akcay 2018)But this conflict would once again escalate towards the end of the 2000s.

The austerity regime pursued throughout AKP's rule helped overcome the recurrent public debt crises of the 1990s. The AKP government has obtained unprecedented levels of privatization revenues between 2002-2017.(Güngen 2018) Inflow of FDIs partly took place through the privatizations the AKP regime followed during this period. The privatizations also weakened organized labor through liquidating the unionized labor force in the SEEs. (Akcay 2018,7) On the other hand, with the labor law of 2003, part-time and temporary work arrangements were legalized. (Mutlu 2013) This further helped weaken the labor movement through making it harder for unions to organize.

The changes in the labor regime went hand in hand with the monetary policies followed by the AKP. AKP's central bank followed exchange-rate based inflation targeting throughout the 2000s "which formed the monetary framework for a low-wage policy, was implemented alongside a new labor regime after 2003." (Akcay 2018,8) The high interest rates that were maintained throughout the AKP regime regulated both inflation, and indirectly, the inflow of financial capital. "Further, under the inflation targeting system, wage increases were effectively limited by the central bank's inflation target."(Ibid)

In the same period there have been changes in the financial sector and the manufacturing sector. As Ergunes points out, between 2002-2008, as inflation and the exchange rates in the country stabilized as a result of the monetary policy, manufacturing companies started to increase their borrowing from international financial institutions.(Ergunes 2009) She states;

> Although the financing of the productive sector continues to rely heavily on domestic bank loans, external borrowing became prevalent during this period. It is also probable that non-bank sources of funding have also increased. These shifts should be considered as an impact of financialisation on the productive sector, directly related to the process of internationalisation of domestic capital. The productive sector has been able to compete globally by squeezing wages and increasing productivity. It has been able to obtain investment goods necessary to production through imports. Hence a strong exchange rate has become a facilitating factor in the changing finances of the productive sector.(Ibid, 21)

To summarize this point; as the country's exchange rate stabilized, the wages were squeezed due to deunionization and changes in the labor regime, and productivity increased, the manufacturing sector became an appealing investment for foreign banks.

Foreign banks also penetrated the country's financial system during this period. "The crisis of 2000-1 made Turkish banks more attractive to foreign banks as mergers and acquisitions led to rationalization of branches and personnel."(Ibid, 22) Foreign banks' market share reached 39.7% in 2007 in part due to their own branches and in part due to the buyouts of certain Turkish financial conglomerates. (ibid) Fifteen domestic banks were either wholly or in part bought by foreigners between 2005-07. (Akkaya 2017) These sellouts provided high returns for the sellers and recovered the credibility of the financial sector in Turkey following the turbulent 1990s. This process was largely a part of the internationalization of capital that was taking place as a part of globalization. International financial institutions were seeking to increase their profitability and to expand their market shares in the financial sectors of the emerging economies.

As Ergunes states, the foreign financial companies and banks focused their attention specifically on consumer credit during this period. They expected the consumer credit market to grow more rapidly than in the EU countries. Their purchases of domestic banks have also helped them in this regard since they have obtained access to consumer databases. Resulting from the wage squeeze, their expectations came true and consumer indebtedness skyrocketed under the AKP. As the country started importing more consumer goods, foreign banks flooded the country with deposits and cheap credit and the wages were squeezed, consumer demand was primarily increased through consumer indebtedness. Household debt to disposable income ratio rose from 4.7% in 2002 to 36.6% in 2008 and continued to rise to 52% in 2015.(Güngen 2018) This was in part due to the privatizations which contributed to increase the burden on households under the AKP. As Umit Akcay states, the consumer credits were the primary financial inclusion mechanism of Neoliberal Populism, alongside the changes in the welfare regime, that helped maintain AKP's rule even as the labor share of income was suppressed during this period.

After 2007, AKP also had to overcome the challenges posed to its rule by the secular establishment. The conflict between the AKP and the secular establishment came to the forefront once again as the retirement of the country's president Ahmet Necdet Sezer approached.(Akcay 2018, 16) This meant that the AKP would appoint the next president of the country. Sezer was considered a member of the secular establishment and AKP would nominate Islamist Abdullah Gul to replace him. The Turkish Armed Forces expressed their concerns regarding AKP's candidate on an e-memorandum in

2007. The AKP overcame this challenge through increasing their shares of the vote in a snap election in 2007 and calling a referendum to change the presidential system. They would also persecute and imprison many secular members of the military and the judiciary through multiple lawsuits the following years.

Following the Great Recession, the country's economy began to slow down. Foreign direct investments have dropped by nearly 50% in 2009 as international banks and financial institutions collapsed.(World Bank 2018) Unemployment rate reached 15% in 2009 and remained over 10% for most of the 2010s. (TUIK) The country's growth rates remained strong due to stable consumer demand fueled by generous credit options until 2012. But the economy began to slowdown in 2012.

Akcay says "almost all of the critical incidents in recent Turkish history, such as the Gezi Park uprising, the 2015 election setback for the AKP, the failed coup attempt, and the 2017 change of regime have taken place in the period of economic slowdown since 2012."(Akcay 2018, 19) One of the driving factors of this slowdown was the quantitative easing policies followed by the Federal Reserve in the US. As the interest rates went up in the US, the inflow of capital that was boosting Turkey's growth rates in the prior period began to fly back to the US.

Following the failed coup, attempt that was prompted by the conflict between Erdogan and his former allies the Gulenists, the Turkish economy contracted in 2016, for the first time since 2009.(Akcay 2018, 23) Gulenists were a section of the AKP's ruling coalition since 2002 but they began to compete with the AKP to become the ruling bloc after 2012. Following the failed coup, international credit rating agencies lowered the country's credit rating which led to a collapse in the Turkish Lira. The collapse of the lira led to high inflation and a slowdown in growth. Given that the country became highly dependent on imports – in both consumer goods and intermediate manufacturing goods - during its neoliberal transformation, the slowdown was an inevitable result.

Between August 2016 and August 2018, the Lira dropped by nearly 100% against the dollar.(Anon 2018c) The government had restrained consumer credits during this period and pursued debt restructuring for both the highly indebted consumers and the companies that were on the verge of bankruptcy. Amid the currency and inflation crisis, through these measures the AKP maintained positive economic growth. But in the worst of the crisis is yet to come. The country's economic growth dropped from 7.2% in the first quarter of 2018 to 1.6% in the third quarter.(Ozgur 2018) It was during the third quarter of 2018 the Lira dropped by 40% against the dollar. We are yet to observe the long-term effects of the current crisis but according to one report 38 businesses went bankrupt every day in the country between January 2017 and June 2018. (Simsek 2018) Given the recent escalation of the currency crisis we can only expect things will get worse.

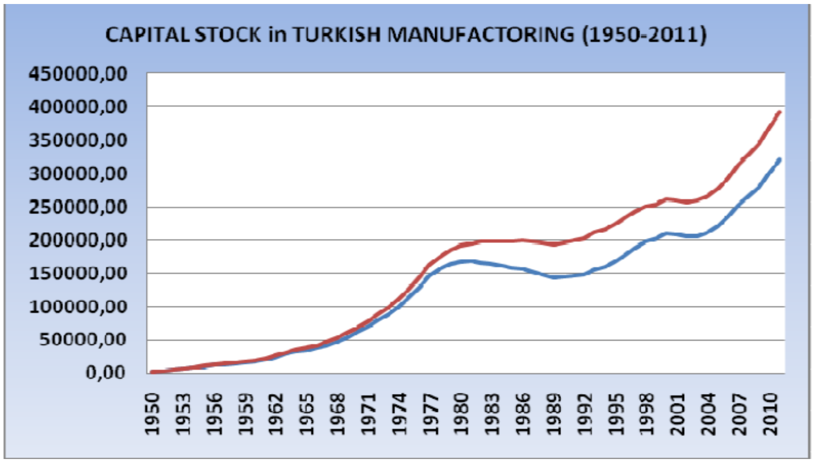
Long Waves and Turkish Neoliberalism

Neoliberalization of Turkey must be understood within the context of the long waves of capitalist development. The rate of capital accumulation in any capitalist economy is driven by the rate of profit. On the other hand, the process of capital accumulation also determines the rate of profit. This relationship and the resulting process lead to various patterns of capitalist development that manifest themselves in cycles and waves. As Anwar Shaikh puts it:

> A fast (3-5 year inventory) cycle arises from the perpetual oscillations of aggregate supply and demand, and a medium (7-10 year fixed capital) cycle from the slower fluctuations of aggregate capacity and supply. But underlying these business cycles is a much slower rhythm consisting of alternating long phases of accelerating and decelerating accumulation. The various business cycles are articulated into these basic waves. Capitalist history is always enacted upon a moving stage.(Shaikh 2011)

For this section I will explore the longer-term trends in the Turkish economy that I will call long waves. In the Marxian economic framework, the rate of profit (r) is defined to be the ratio of net profits(Π) to the invested capital stock(K); $r = \Pi/K$. Net profits, Π, is defined to be the sum of the labor value of surplus that is extracted from workers in each time period. Hence, Π equals to the labor value of total output minus the total labor value of workers' consumption requirements (v) and that used up in the means of production (C). Using this framework and through estimating the amount of capital stock using national accounts provided by the OECD, T. Hakan Ongan estimated the rate of profit in the manufacturing sector of the Turkish economy between 1950 and 2011.(Ongan 2011) Figure 3 shows Ongan's estimates of the value of capital stock in Turkish manufacturing between 1950 and 2011 – using the 'perpetual inventory model.' The maturity period of capital is twenty-six years for the red line and nineteen years for the blue line. Capital accumulation sped up throughout the 1970s due to the expansion of foreign capital inflows in the form of government borrowing and industrialization.(Turan 2011)

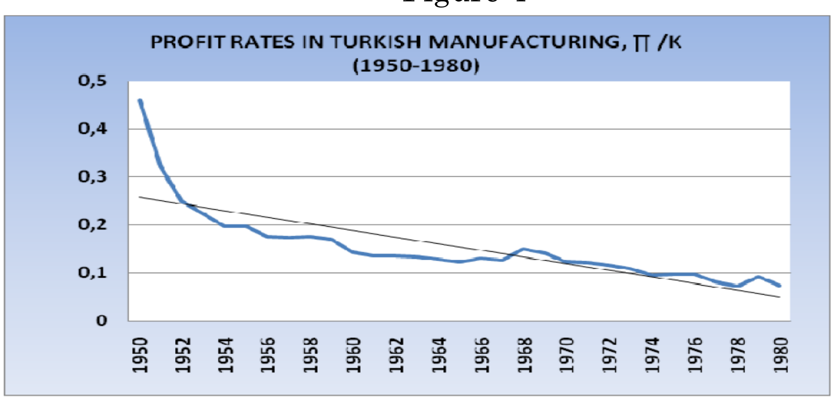
Figure 3



Source: Ongan(2011)

As Turkish manufacturers accumulated capital stock and the workers movement grew prominent in the 1960s and the 1970s – that is as K and v grew - the rate of profit in the manufacturing sector declined between 1950-1980. Figure 4 shows the rate of profit in the manufacturing sector between 1950-1980. It is important to note that workers were not the primary cause of the decline in profitability, so much as that they have put pressure on capitalists to maintain or increase their wages. The driving force of the decline in profitability was accumulation of capital. This period can be identified as the first long wave we observe in the country's development since no data is available for the period between 1923-1950.

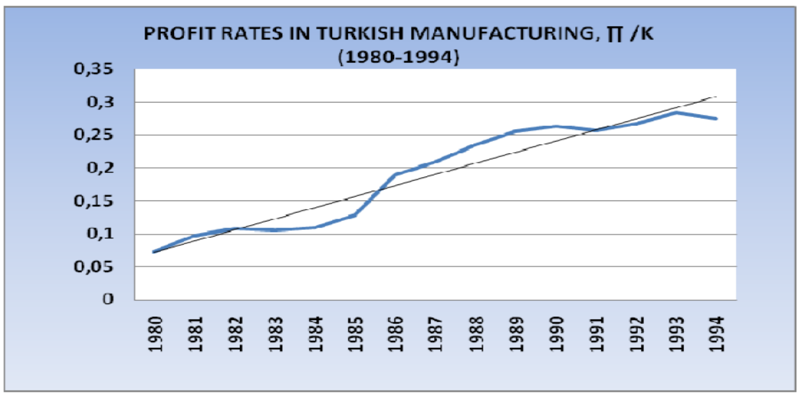
Figure 4



Source: Ongan(2011)

The decline in profitability was the key economic factor that necessitated the neoliberal economic restructuring following the coup of 1980. Government debt soared prior to the coup in the 1980 because a large section of the economy was controlled by the government and profitability was down. As a result of the neoliberal reforms of the military dictatorship and the ANAP government, profitability recovered from 1980 until the middle of the 1990s. The military coup and the structural reforms prompted the second long-wave in the country's economic development. Within this wave we can observe two smaller cycles. Figure 5 shows the rate of profit in manufacturing between 1980-1994. This recovery is the first cycle and was in part prompted by the repression of the country's left and the workers movement following the coup. This led to a decline in the labor share of income until late 1989. It was also related to a broader shift in the country's trade policy from an import-based strategy to an export based one.

Figure 5



Source: Ongan(2011)

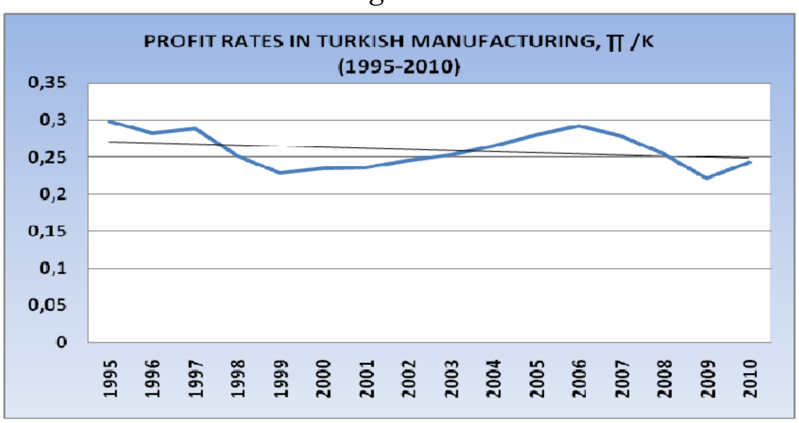
The recovery of the profit rate slowed down once again following a rise in the rate of capital accumulation, as well as the surge in the labor movement which led to an increase in real wages in the late 1980s and early 1990s. The same pressures by the workers movement also forced the government into pursuing more redistributive policies. It is important to note that the capital account liberalization of 1989 also took place within this context, aside from being a part of the broader IMF enforced program the country was following.

As I previously mentioned, one of the coping mechanisms for the decline in manufacturing profitability for industrial capitalists was to move their investments into the high yield bonds the government was issuing throughout the 1990s. Hence, we can argue that the first period of financialization I described was in part prompted by the process of capital accumulation and this process rose as an alternative to productive investments. This was because capital accumulation reduced the rate of profits and the high yield government bonds provided a more profitable alternative.

The capital account liberalization and the increased government borrowing were the main drivers of economic instability throughout the 1990s as I mentioned in the previous section, yet the policy remained intact as it provided higher profits.

Figure 6 shows the manufacturing rate of profit between 1995-2010. This period and the 2010s can be identified as the second cycle of this long wave. Following the recovery of the manufacturing rate of profit for most of the first stage of Turkish neoliberalization, we observe a decline between 1995-1999. Ongan suggests that this might be a result of the capital account liberalization, which was made without fiscal adjustment and caused a financial crisis in 1994. The period between 1995-1999 was a very unstable period for the Turkish economy due to the hectic inflows and outflows of speculative capital. As the rate of profit declined in the early 1990s, many industrial capitalists moved their investments into government bonds. We can see that this might have led to the slowdown in the rate of capital accumulation towards late 1990s in Figure 3. Hence it is important to note that it is likely that due to the decline in profitability, some industrial capitalists shifted their investments into the financial sector up until profitability began to recover under the AKP.

Figure 6

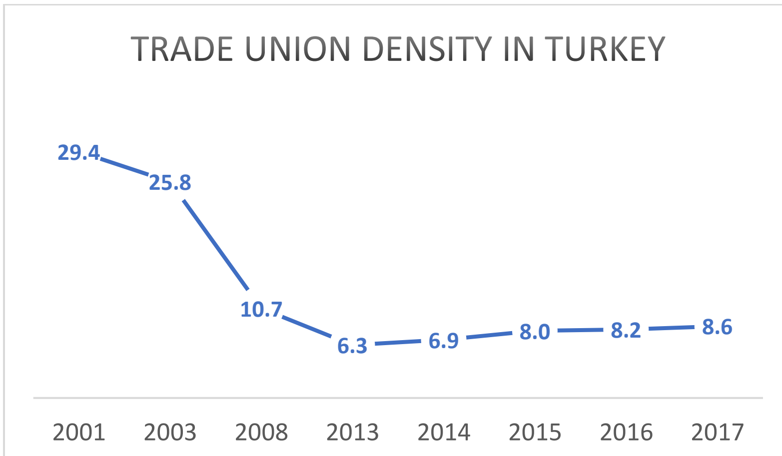


Source: Ongan(2011)

The manufacturing profitability began to recover after 1999. This might be due to a deaccumulation through depreciation in the prior years that resulted from low profitability and low investments in productive assets. From the beginning of the AKP regime and until the Great Recession, we see a slow rise in manufacturing profitability. This was likely caused by the AKP's legalization and expansion of part-time and temporary contracts which helped reduce the unionized labor force and hence it became easier to suppress wages. As a result of this, the labor share of income in Turkey declined by more than 15% between 1995-2012.(International Labour

Organization and Organisation for Economic Co-operation and Development 2015) Based on OECD data, Figure 7 shows a rapid decline in union density in Turkey under the AKP regime. Changes in the labor regime and deunionization recovered profitability in manufacturing which in return once again increased the rate of capital accumulation. Resulting from further accumulation, profitability once again began to decline around 2006 and dropped sharply following the Great Recession.

Figure 7



Source: OECD

An important thing to note here is that by the time the AKP came to power, manufacturing industry had already been partly financialized. As I mentioned in the previous section, financialization under the AKP largely took place through the international investments in the domestic banking and financial sector and the expansion of the financialization to households. Hence the primary reason why the manufacturing industry might have slowed down is the rise in the cost of imports following the Great Recession. We can see this in the collapse of the country's trade balance following the Great Recession.(Anon n.d.) Since many manufacturing enterprises depended on intermediate goods, an increase in the cost of imports might have led to a decline in manufacturing profitability.

Conclusions

I have identified two long waves of Turkey's capitalist development. The first one took place between 1950-1980. The second one began with the neoliberal restructuring of the Turkish economy following a severe decline in profitability in the prior period. This restructuring led to a recovery in profitability through suppression of wages, trade liberalization and various other means. During this period alongside economic factors, political changes have also impacted the course of the economy. In 1989, the Turkish government liberalized the country's capital account. This prompted the first period of financialization. This period of financialization was largely driven by high yield short-term government bonds and has led to partial financialization of the manufacturing sector due to the declining profits in this sector. The political conflicts as well as the government policies prompted severe instability in the economy throughout the 1990s and led to the most severe economic crisis in the country's history in 2001. The period between 1980-1994 was identified as the first cycle of the second long-wave and 1980-2001 is the first period of Turkish neoliberalism. Following the crisis in 2001 the AKP came to power and applied a new neoliberal model that I referred to as neoliberal populism. During the early years of the AKP's rule, the high inflation and high public debt that caused instabilities in the 1990s were overcome through exchange-rate based inflation targeting and drastic austerity measures. On the other hand, AKP has transformed the labor regime of the country and led to drastic deunionization which recovered profitability in the manufacturing industry until late 2000s. During this period the country's financialization took place largely through the domestic and international banking sector and the expansion of credit to households as a financial inclusion mechanism. The escalating political conflicts, as well as the long-term effects of the Great Recession led to a slowdown in the Turkish economy in the 2010s. The country currently remains in crisis and as the long-wave framework suggests this might prompt drastic structural changes in the future.

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