Credibility and Class in the Evolution of Public Banks: The Case of Turkey
Marois, Thomas and Güngen, Ali Rıza

Introduction

Forms of public banking go back thousands of years while modern public banks have served important developmental functions in most countries' transitions to capitalism over the last century. By the 1970s estimates suggest that 65 percent of the largest banks' assets were publicly controlled in developing countries and 40 percent in the advanced economies (Levy Yeyati et al. 2007, 212). Today public banks still account for a quarter of all banking assets, despite global transitions to neoliberalism and associated privatization processes (de Luna-Martinez and Vicente 2012, 2). The aftermath of the 2008-09 global financial crisis, moreover, has renewed interest in the developmental potential of public banks (UN 2015).

Yet within the problematic of property rights and institutions, the debate around bank ownership and development is as starkly polarized as ever. Conventional neoclassical economists regard private bank ownership as innately superior whereas institutional political economists understand public bank ownership as offering conclusive developmental advantages (*cf*. Caprio et al. 2004; Öztürk et al. 2010; World Bank 2012; Mazzucato and Caetano 2015). Research is most often framed around establishing that either public or private banks can best achieve developmental gains. Substantiating, yet contrasting, evidence is in no short supply for either view, leaving development policy and advocacy in somewhat of a lacuna.

A recent intervention by Peter Ho suggests a way past such static positions, characterised by fruitless 'institutional chicken or egg' debate into whether markets determine institutional structures or vice versa (2013, 1087). Ho does so through the lens of institutional credibility, which suggests that institutions that exist and persist over time are "*credible* and the spontaneous cause and effect of development" (2013, 1088; emphasis in original). In this framework, it may be the case that neither private nor public banks are innately superior. It may be that *it depends*, and deciding *on what* means dissecting the historical complexities of how and why case-specific institutions function as they do (*cf*. Ho 2013, 1096). The approach should help guide us through the otherwise unproductive debates asserting either public or private banking superiority.

We apply this credibility lens to the case of public banking in Turkey. We do so not to assert their developmental superiority but to help us capture the public banks' evolving and often contradictory functions across different phases of capitalism, most recently neoliberalism. We define capitalism, at base, as a historically specific phase of development wherein private ownership over the means and over the social products of social production is dominant, just as the associated and exploitative capital–labour relationships are predominant (Hanieh 2013, 6). Moreover, we see contemporary capitalism as neoliberal. Neoliberalism emerged out of the 1970s as a class-based ideology that suggests all social, political, economic, and ecological problems can be resolved by more direct exposure to private ownership and market competition. While entailing market-oriented policy matrixes, neoliberalism has consolidated as a new form of social rule, power, and class domination that has, as a key political objective, aggressively targeted organized labour's capacity to resist market reforms for the benefit of capital (Harvey 2005; Marois and Pradella 2015).

Our contribution to this special issue's thematic is two-fold. First, we concretely examine the under-explored issue of continued public banking under neoliberalism, through the under-studied case of Turkey and its long-held and large public banks. Second, we engage debates on bank ownership and institutional credibility from a historical materialist framework. We argue that Turkey's public banks have evolved spontaneously, and often unintentionally so, in ways supportive of capitalist development. This support underpins the public banks' class-based credibility and, hence, persistence, even within neoliberalism. Such credibility is not an essential characteristic, but a historically shifting institutional condensation of the public banks' social content.

We develop our argument as follows. Section One explores contending neoclassical and historical materialist views of banks through this special issue's thematic lenses of spontaneity and credibility. Sections Two to Four deal with our case study, exploring the evolution of the public banks from Turkey's postwar consolidation of capitalism, to its post 1980s transition to neoliberalism, and through its response to the 2008-09 global crisis. This is followed by a brief conclusion.

1.0 Contending Views on Bank Ownership: Spontaneity and Credibility

Our understandings of social history, theory, and evidence are arrived at through interpretive lenses. For critical scholars such knowledge is never neutral as facts come linked to the values of socially located individuals (*cf.* Cox 1981; Alcoff 1996), reinforcing the need for theoretical engagement. This understanding is contrary to the positivist, value neutral stance of much conventional economic thought (Lawson 2013, 957). As researcher Stephen Spratt recognizes in the field of finance and development, "The answers arrived at may owe as much to the ideological predispositions of their authors as to conclusive empirical evidence." (2009, 1) Hence scholars ought to identify and defend their theoretical frameworks in a world of contending approaches as a matter of investigative rigour. To this end, we first explore today's dominant framework, the conventional liberal *cum* neoclassical private interest view on banks, which we suggest is a pre-social *a priori* approach. We contrast this with an alternative historical materialist framework, which we suggest is an historical-structural approach sensitive to the social forces affecting changes in the public banks. We organise the discussion around the thematic notions of spontaneity and credibility.

1.1 Conventional Private Interest Views on Banking

The conventional private interest view is the dominant paradigm for interpreting banking institutions today, most notably within major international financial institutions (IFIs) like the World Bank (Barth et al. 2006; World Bank 2012). As expressed in a benchmark study by La Porta et al., private interest frameworks believe that "governments acquire control of enterprises and banks in order to provide employment, subsidies, and other benefits to supporters, who return the favor in the form of votes, political contributions, and bribes" (2002, 266). It follows, in this view, that where public bank ownership prevails, economic growth, efficiency, and development suffer. Consequently, private banks should supplant public ones. The analytical foundations of this approach draw from neoclassical economics and neoliberal thought as related, if different, bodies of conventional scholarship.

We begin to navigate this approach via the concept of *spontaneity* that, in general, refers to the act of something occurring suddenly and without being premeditated. In many ways, spontaneity is the *sine qua non* of conventional understandings of a desirable, modern, market society. For our purposes we can look to Friedrich Hayek. Building on Adam Smith's metaphor of the 'invisible hand', Hayek (1984) defined liberalism as a self-generating, unintended, and *spontaneous* social order that is both neutral and natural. In this view society is the sole product of *individual* human actions, but not of their intentions (Solomon 2010, 129). Individuals' actions, moreover, are innately motivated by egoistic desires for prosperity. As individuals are also rational, they will only enter into exchange relationships (the basis of society) that are of mutual benefit. Mutual exchanges should lead to the greatest good: reciprocity, rather than any common purpose, is the most desirable social ordering principle. *Credibility* thus theoretically depends on a social order defined by individual exchange relations. Furthermore, because governments and their institutions are composed of egoistic individuals, the coercive powers of government must be limited to protecting the rule of law, mediating market exchange, and facilitating justice. Private property is fundamental because it is the sole realm in which individuals can prohibit others from infringing upon their choices (Hayek 1984, 368). It follows that market-based competition, protected from political distortions, is the most just and credible means of wealth distribution.

While Hayek's liberalism depended little on the quantitative modelling of conventional economics, neoclassical economic assumptions rely on liberal individualism (Solomon 2010, 130-4). Specifically, neoclassical methodological individualist and hypothetical deductivist approaches presume the pre-social, self-interested liberal individual and voluntary (if constrained) exchange (Vanberg 2005, 24; 34-5). Mathematical deductivism then operationalizes individualist hypotheses along positivist lines. Deductivism holds that "all explanation be expressed in terms of 'laws' or 'uniformities' interpreted as (actual or 'hypothetical') correlations or event regularities" (Lawson 2013, 950). Deductivism anchors neoclassical economics to liberal individualism.

Liberalism further supplies the theoretical basis for important dichotomies in conventional economics, such as the separation of politics and economics, state and market, and public versus private. The implication being that the sphere of economics, the market, and the private sector are from the start the most credible options because decisions about buying, selling, pricing, producing, borrowing, and lending are best made by individuals. Privatization processes should naturally follow. As Andrei Shleifer argues, private ownership constitutes *the* source of market-based incentives to innovate and be efficient, which "politicization" jeopardizes (1998, 136-7; 148). The private interest view extends these tenets into banking, arguing that grafting any positive attributes onto public bank ownership is both idealistic and naïve (Barth et al. 2006, 34-5). Credible, socially desirable results are achieved via private actors and market discipline free of government ownership (Barth et al 2006, 14).

This view meaningfully informs contemporary IFI policy formation and research on banking and development. In 2001 the World Bank's *Finance for Growth* report stated, "[w]hatever its original objectives, state ownership tends to stunt financial sector development, thereby contributing to slower growth." (2001, 123) This claim is followed four pages later by a revealing, if awkward, admission that "[u]ntil recently, the primary evidence on this issue [government failure in finance] has been anecdotal" (World Bank 2001, 127) – that is, after some two decades of bank privatization advocacy. The World Bank's inaugural *Global Financial Development Report 2013* (2012, 101) continues:

> The empirical evidence largely suggests that government bank ownership is associated with lower levels of financial development and slower economic

> growth. Policy makers need to avoid the inefficiencies associated with government bank ownership …

In this paradigm, the credibility of public banks is determined *a priori*, even if one performs laudably according to conventional efficiency and profitability criteria. An underlying credibility problem inevitably remains that can only be resolved by ownership transfer to the private sector. This is because political interventions into the economy are understood as innately motivated by self-interested politicians seeking re-election (*cf*. Kane 1977; La Porta et al. 2002). In the final analysis, why any society might promote or preserve public banks is a matter of predetermined, pre-social knowledge.

In many ways, however, the policy face of the private interest view is represented by new institutional economics (NIEs), which attempts to practically integrate the role of institutions into a spontaneous individualist market order. NIE scholars often forefront Hayekian propositions around market-supporting institutions, since these institutions are needed to protect the rule of law and private property rights (Acemoglu and Robinson 2010, 14). In this way, NIE accounts of banking fit well with private interest views. As NIE scholar Stephen Haber (2005) argues in the case of Mexico, weakened property rights, associated with state interventions like bank nationalizations, lead to underdevelopment, market inefficiencies, and populist policymaking. The NIE innovation over and above other neoclassical approaches is that politics matter to a country's banking system (Calomiris and Haber 2014, 4). Still, the necessity of universal private property protections and market enhancing institutional frameworks are preserved in their definition of 'fundamental political institutions' (Calomiris and Haber 2014, 12-13; 35).

The implications might be read as contradictory. Property rights structures around banking are *not* smoothly derived from the intentions of politicians or from the unfolding of market efficiencies but are mediated by deals struck between competing coalitions (Calomiris and Haber 2014, 38). A fair proposition. Yet such historical mediations and co-evolution apparently do not apply to actually-existing public banks, whose characteristics inherently lead to self-interested and corruptible ends (2014, 35-6). As Calomiris previously argued in the *Global Financial Development Report 2013*, any move towards public banks would increase systemic risk, encourage government corruption, and lead to fiscal losses in ways that undermine economic stability (World Bank 2012, 117). Consequently, the fundamental institutions deemed as *a priori* credible, such as property rights and markets, are subject to mediating political power relations (within limits). Yet institutions deemed as *a priori* without credibility, such as the public ownership (of banks) are suddenly (even selectively) not subject to mediating power relations. Here there is no room for spontaneity as public banks are pulled out of historical, socio-political determination. Conventional maxims like 'bureaucrats make bad bankers' thus prevail (see World Bank 2001, 123).

This critique of conventional understandings of spontaneity and credibility of public banks has broader theoretical and empirical backing. Theoretically, critical social scientists argue that neoclassical economics and NIE cannot adequately defend their *a priori* assumptions around market neutrality; cannot justify their narrow focus on property rights; and cannot avoid grafting contemporary social relations (like private property relations) onto the whole of human history (Ankarloo 2002; Hodgson 1986; Lawson 2013). Empirically, too, superior private bank efficiency claims do not always hold: the "evidence that the prevalence of state ownership in the banking sector conspires against its ultimate development thus appears to be weaker than suggested by previous studies" (Levy Yeyati et al. 2007, 237-8). So is it in the case of Turkey where empirical research suggests that the public banks are now among the most efficient banks (Aysan and Ceyhan 2010; Kök and Ay 2013). The point is not to assert public ownership superiority but to insist that greater emphasis is needed on the historical contexts of different countries, and the specificity of their private and public banking systems, in ways that do not prejudge public bank ownership in and of itself (*cf*. Körner and Schnabel 2011; Brei and Schclarek 2013; Ho 2013; Mazzucato and Caetano 2015).

1.2 An Alternative Historical Materialist View

An alternative to pre-social views of banking can be found in historical materialism, itself a diverse body of scholarship. Yet unlike the private interest view there is no contemporary Marxian-inspired research programme around bank ownership and development. Rather, research on money and finance has tended to explore systemic issues and, most recently, financialization processes (Itoh and Lapavitsas 1999; Duménil and Lévy 2011; Lapavitsas 2013). As such, we are attempting to break new theoretical ground by sketching out a different understanding of bank ownership, guided by related Marxian works in the field (*cf*. Hilferding 2006 [1981]; Lenin 2011 [1964]; dos Santos 2009; Marois 2012).

To manage this dialogue with conventional views, we too engage the concepts of spontaneity and credibility. And whereas spontaneity in conventional terms leads to the polarization of public and private spheres and to the fetishization of the individual, in historical materialist terms spontaneity drives towards a more holistic interpretation of change interpreted within the competitive confines of capitalist social relations of production and social reproduction. Marx writes in the Grundrisse (1973, 580):

> While free competition has dissolved the barriers of earlier relations and modes of production, it is necessary to observe first of all that the things which were a barrier to it were the inherent limits of earlier modes of production, within which they spontaneously developed and moved. These limits became barriers only after the forces of production and the relations of intercourse had developed sufficiently to enable capital as such to emerge as the dominant principle of production. The limits which it tore down were barriers to its motion, its development and realization.

In this understanding spontaneous human interactions and economic relations are seen as significant to historic change, but not as determinant in themselves (as in conventional thought). Marx periodizes change by identifying the specificity of social class relations specific to capitalism that, as such, impart a historically-specific social logic onto, but does not determine, individual agency in processes of change and development (Nachtwey and ten Brink 2008). Ontologically this means perceiving the real world as a *totality* of social relations – a "logic construct that refers to the way the whole is present through internal relations in each of its parts" (Ollman 1993, 37). Put otherwise, socio-economic phenomena can rarely be captured as straightforward cause and effect since, in reality, far more complex processes of mutual interaction are at play (Ho 2013, 1090). Likewise in our view of banking: ownership should not be singled out as independently causing another process (such as inefficiencies in neoclassical thought) but should be considered as evolving within a complex totality and the concrete dynamics of different societies. As Hugo Radice writes, the exogenous sources of change pointed to by conventional theorists are for Marxian scholars endogenous to world capitalism as a whole while simultaneously originating in specific countries (2004, 189). Change occurs within, is shaped by, and in turn reshapes the historical-structural totality of capitalism in spontaneous and often unpredictable ways.

Such a conceptualization facilitates explanations of contradictory, cumulative, and complex social change. In this it too allows analytical room for interpreting the unintended consequences of intended actions, without suffering from the voluntarism of liberalism or ahistoricity of methodological individualism. Marx's contemporary, Friedrich Engels, writes (1959, 230):

> The ends of actions are intended, but the result which actually follow from these actions are not intended, or when they do seem to correspond to the end intended they ultimately have consequences quite other than those intended. Historical events thus appear on the whole to be likewise governed by chance. But where on the surface accident holds sway, there actually it is governed by inner, hidden laws, and it is only a matter of discovering these laws.

The key is the non-deterministic, if structured, notion of 'governed' historical events. Here we can see complementarities with the special issue's credibility thesis and understanding of spontaneous development. For Ho (2013, 1088) in the case of China,

> institutional structure is *not* the result of intentional design by which institutions can be 'wrongly' or 'rightly' engineered. … [which] does not exclude intentional action *per se*, but implies that an actor will not see its intentions materialize as these water down into something else through the protracted bargaining with other actors and economic agents. The outcome is a complex, multi-layered, contradictory and, at times, downright *un*intended institutional constellation….

It needs emphasizing that to ontologically work with a conceptualization of social totality is not to jettison historical specificity or individual agency. From our view, this means working across different *levels of generality*, from the most specific to the most general, in making a reasoned understanding. Here Marxian theory differs from liberalism and methodological individualism, which ontologically jumps from the level of the individual to positing the nature of human society, skipping the historical specificity of capitalism and class societies (Ollman 1993, 58). Hence private and public ownership assumes the very characteristics theoretically grafted on them, regardless of time or space. We seek to avoid this error by analytically internalizing spontaneous interaction into processes of change and evolution alongside questions of credibility. It follows that the actions of individuals and the operations of institutions can neither be read off as simply following the logic of capital or as the unmediated result of some class-based intentional design. Rather, we see institutions (including banks) as complex hybridizations of social and class-based struggles that rarely cohere to any idealized notion, including neoliberal ones today (*cf.* Peck et al. 2012, 271).

Following on this, we suggest that public banks can be understood as "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). Conceived in this way our research seeks to generate a more historical- and context-specific understanding of the social forces, sometimes in unintentional and contradictory ways, shaping the public banks in Turkey across different phases of capitalist development. Hence, it is not that policy makers and class actors do not have 'intentional designs', but that these intentions are always subject to power relations, variegated domestically and in the context of a shifting world market such that any concretized institutionalizations of power (in our case, public banks) are never an unmediated result (Albo 2005; Peck and Theodore 2007; Peck et al. 2012).

It follows that the persistence and credibility of Turkey's public banks should not be theorized as historical anomalies or as perverse distortions of free markets, as per conventional approaches. Rather, Turkey's evolving public banks institutionally reflect contradictory social, economic, and political pressures under different phases of capitalism as realised within in a complex and concrete place, and as such become like functional *modus vivendi* defined by these pressures. Turkey's public banks, therefore, are not immutable institutions determined by ownership form. But they are institutions that evolve spontaneously in the conditions of global capitalism as mediated by Turkey, the shifting social content of which shaping whether they prevail and are credible at a given time, in a given space.

2.0 Public Banking, Capitalist Transition, and Class Formation in Turkey

To anchor our specific discussion of public banking in Turkey, it is worth pausing to note the broad functions of credit systems in capitalist transformation and the potential roles public banks play. First, contemporary banking and credit systems gained significance as capitalism took root in ways functional, if not always smoothly so, to capital accumulation processes (Mandel 1968, 210). According to Marx, the credit system was initially subordinate to wider capital accumulation but then transformed into "a new and terrible weapon in the battle of competition" and an "enormous social mechanism for the centralization of capitals" (Marx 1990, 778). In this process, no sum of money need remain unproductively employed, as new banking institutions enabled scarce money resources to be transformed into investment money capital (Mandel 1968, 222-3). A materialist explanation for the emergence of modern capitalist credit systems suggests a pyramid-like structure of institutions, markets, and assets that evolved spontaneously within capitalist accumulation processes (see Itoh and Lapavitsas 1999; Hilferding 2006). Building on a foundation of trade credit relations among producers, history points to the emergence of individual banks as effective money dealers, economizing on credit relations. From there, we see the rise of money markets, central banks, and global lenders of last resort like the US Treasury and IMF today, all of which function to accelerate and smooth capital accumulation and developmental processes.

Second, governing elites often assigned public banks important roles in emerging capitalist economies and their national development strategies (see World Bank 2012b; Chiu and Lewis 2006; Sikor 2012; Chakrabarti 2012). Classically, developmental economists argued that the volatility of private capital markets gave rise to the need for public banks in underdeveloped countries as a means to providing more stable and long-term sources of loanable capital that can be directed to priority economic sectors (Gerschenkeron 1962). Over time, public banks developed several additional capacities more specific to 21st century developmental challenges (Marois and Güngen 2014; Butzbach and von Mettenheim 2014; Mazzucato and Caetano 2015). For example, public banks can provide effective counter cyclical lending at times of financial crisis. Well-run public banks may offer a source of public revenue and enable cross subsidizations geared to developmental goals. In some cases, public banks (including cases of bank nationalization) have been viewed as a significant countervailing political force against the dominance of powerful foreign and domestic bankers in domestic affairs. Public banks may also serve as useful tools of income distribution and social inclusion across national spaces, tying a country together economically. Recent innovations suggest that the extra-market coordinating capacity of public banks may deliver the political room needed to privilege green and gendered strategies of development. Finally, public banks may offer a means of democratizing finance. Consistent with our historical materialist framework, however, such public banking functions remain so only *potentially*, not inherently.

The case of Turkey broadly conforms to this model, wherein early 20th Century banks served a historically formative role in modern Turkey's transition to capitalism. Of course, banking in Turkey preceded today's Republic, stretching back to Constantinople as a center of Medieval Venetian and Genoese finance and later as the heart of subordinated Ottoman public finances under the imperial watch of the foreign owned Ottoman Bank (de Roover 1971; Jacoby 2004). Under the new Turkish Republic and after the 1923 Izmir Economic Congress, however, the banking sector in general and the new state-owned, public banks in particular assumed an active place in state and class formation processes. Local private banks had remained small scale and were unable to respond to larger governmental or developmental credit needs (Kuruç 1987). Public banking gained prominence as state authorities created large public, deposit collecting, commercial banks with mandated developmental orientations (Öztürk et al. 2010, 161; see Table 1). For Turkey's new political elite and nascent capitalist classes, supporting *public* banks seemed the most viable way of creating the extra-market coordination needed to mobilise scarce domestic resources for capitalist transformation, while asserting Turkish sovereignty. This was not a bottom-up process shaped by popular classes but instead involved governing elites mobilizing Turkey's new public banks in a state-led process of forming a nascent working class and market-oriented agricultural peasantry (Berberoglu 1980; Karaömerlioğlu 2000; Marois 2012, 45-9; *cf*. Keyder 1983).

One of the important banks in this historical process was Ziraat Bank (the 'Agriculture' Bank). Ziraat is the oldest, largest, and most important public banking institution that persists in Turkey today. Its creation in 1863, as a credit fund for farmers, preceded that of the Republic. Yet under the Republic it assumed the role of not simply supporting peasant farming, but of underwriting a portion of Turkey's capitalist transition. To this end, the new government recapitalized Ziraat in 1924, which by then was providing over 70 percent of all bank credits (Yüzgün 1982). By the 1930s Ziraat had taken a lead in funding agricultural modernization via loans for machinery and its promotion of agricultural cooperatives (Berberoglu 1980, 100-1). On the one hand, this drew the agricultural peasantry into more formal capitalist markets and debt relations. On the other hand, Ziraat became an extension of the nascent state, reaching across Turkey. In this way Ziraat functioned within processes of capitalist transformation to maintain an integrative role and nationalist orientation via its non-commercial, non-profit maximization mandate to support farmers, which was oft-quoted in the land reform debates of the early republic (Karaömerlioğlu 2000, 120-1).

Other public banks also facilitated working class formation via their financing of industrialization (Table 1). In 1933 state authorities established Sümerbank and Etibank with special mandates to support industrial production, especially via state-owned enterprises (SOEs) (Keser 1993, 77; Akıncı 2000). By 1940 Sümerbank was a key agent behind Turkish industrialization (and by extension, behind the formation of a waged labour class) through its controlling shareholdings of iron, steel, oil, coke, leather, wool, cement, and cotton productive enterprises (Berberoglu 1980, 99). Funding gaps nonetheless remained in Turkey's transition to capitalism, leading state authorities to establish various local 'Halk' banks ('People's' banks, that later consolidated into 'Halkbank') to service a community of cooperatives, trades, crafts, and shopkeepers (today's small- and medium-sized enterprises, or SMEs) through formal links to the Ministry of Industry. In turn, the growing economy and expanding wage labour force (whose wages were becoming a new source of deposit capital for the public banks) gave spontaneous rise to public infrastructure demands, which the Belediyeler (Municipalities) Bank targeted. Given the size and scope of these public projects, authorities later merged Belediyeler into the Iller (Provinces) Bank in 1945, which continues to support village, town, and city infrastructure capacity today. At the time, the range of Turkey's public banks boosted agriculture, trade, industry, and infrastructure as integral elements of capitalist transformation in Turkey (Akıncı 2000).

Then, as today, the credibility of the public banks embodied class-based contradictions given their roles in Turkey's increasingly capitalist economy. For instance, when Ziraat Bank purchased wheat supplies in the 1930s this helped absorb the shock of the otherwise collapsing commodity prices on the peasantry; this then smoothed the otherwise imminent threat of widespread social destabilization (Özbek 2003). Contradictions continued in the postwar period of European reconstruction as Ziraat continued financing agricultural mechanization, now aided by the US Marshall Plan. This funding sped proletarianization in the countryside and rural to urban migration, which opened up new sources of cheap labour for industrialization (Pamuk 2009, 376-8). In Sümerbank's support for industrialization, it also at times exercised direct downward control over wages levels to help ensure SOE profitability (Berberoglu 1980, 111). This increased the exploitation of workers but supported local industrialists, who benefited from cheaper state-produced primary and intermediary outputs. Yet, in the public banks themselves, bank managers were often given greater leeway to provide worker bonuses and greater workplace benefits (Akıncı 2000).

The Turkish public banks thus evolved in ways functional to capitalist industrialization, with credibility entailing class-based divisions. As seen elsewhere in this special issue, the developmental history of the Turkish public banks may share significant commonalities with the public banks in China's capitalist transformation (see Yeung this issue).

Table 1: Public Commercial Banks in the Early Turkish Republic

Public Bank	**Year Established**	**Mandated Development Mission or Target Funding**
Ziraat Bank	1863/1888	Agriculture
Emlak Bank	1927	Home mortgages and real estate loans
Sümerbank	1933	Other SOEs and industrialization
Belediyeler Bank	1933	Municipal infrastructural projects like 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, trades persons, and small scale producers

Sources: BAT 1999; BAT 2009.

State authorities later experimented with a phase of postwar liberalizations, including a more systematic approach to private banking, spearheaded by the more market-oriented Democratic Party after 1950. The market experiment, however, was short-lived given Turkey's peripheral economic status, and the public banks became decisive in Turkey's state-led development plans after 1960 (Akıncı 2000; Önder and Özyıldırım 2013). By 1970 eleven public commercial banks and three development banks controlled just over 70 percent of the sector's assets providing credits well in excess of those offered by the private domestic and foreign banks combined (BAT 1999, 24; BAT 2009). The public banks worked in intra-state collaboration with Turkey's State Planning Organization (Devlet Planlama Teşkilatı), established in 1961, to coordinate investment, decide on subsidised credits, back new industrial investments and SOEs, and allocate foreign exchange as part of Turkey's coordinated Five Year Development Plans (Aydın 2005, 34-5). It was also in this period, and with the passing of the 1961

Constitution, that workers, popular classes, and the peasantry became more organised, demanding greater rights, wages, and protections. In the banks, worker numbers topped 130 000 and, as new labor unions formed, they began struggling for better working conditions, hours, salaries, vacations, and fringe and health benefits (Marois 2012, 57).

3.0 The Neoliberal Transformation of Public Banks in Turkey

Turkey's particular transition to neoliberalism has been explored in depth in the literature and need not be revisited in general here (Aydın 2005; Yalman 2009). In brief, however, its state-led accumulation strategy entered a period of crisis and reform, triggered by the foreign exchange crisis of 1977 to 1980 and the 1980s debt crisis (Metin-Ozcan et al. 2002, 84). The IFI-crafted January 1980 structural adjustment program, implemented by force via the 1980 military coup, signalled Turkey's authoritarian transition to neoliberalism by opening a new, if short-lived, export-oriented boom premised on the suppression of workers' rights and labour costs (Metin-Ozcan et al. 2002, 84). Many of the labour rights gained were violently scaled back. Turkish capital recognized that liberalization measures would help them to restore waning levels of profitability and regain lost class power via world market integration (Ercan and Oguz 2007). Yet in Turkey, as in all neoliberal transformations, the adjustment process is never smooth, always variegated, and mediated by the specificities of its society (Brenner et al. 2010; Munoz Martinez and Marois 2014).

So is it with neoliberal transformations in banking in many developing countries, in particular with the shifting legitimacy of public banks (*cf.* Barth et al. 2006; Levy Yeyati at al. 2007; Dos Santos 2009; Butzbach and von Mettenheim 2014). The probable risks of rapid bank privatizations to economic stability at the time meant governing authorities often did not immediately champion structural bank ownership changes, unlike with other SOE sell-offs. Indeed, not until the turn of the 21st century did major bank privatizations take off in many developing countries (World Bank 2012, 104). In Turkey's case an initial attempt at rapid financial opening triggered the costly 1982 Kastelli financial crisis[1], which gave abrupt pause to authorities' enthusiasm for financial transformation (Marois 2012, 106). Consequently, state authorities did not aggressively pursue large-scale bank privatizations, though smaller public banks and the state's shareholdings in private banks were sold off (Önis 2011; Marois 2012). For much of the 1990s the public banks still accounted for over 40 percent of banking assets (BAT 2009, 177). Nevertheless, the neoliberal shift in accumulation strategies in Turkey from state-led to market-oriented eroded the postwar developmentalist credibility of the public banks. Turkey's volatile transition to neoliberalism would also drive spontaneous changes in their operations, giving rise to new contradictions that would ultimately contribute to the 2001 crisis and drive banking changes.

A key dynamic of Turkey's neoliberal transition thus emerged in the late 1980s as export- and wage repression-led growth gains began to peter out. In response and to facilitate continued neoliberal transformation, state authorities institutionalized capital account liberalization in 1989, thus deepening Turkey's world market integration. The opening of Turkey's borders to flows of foreign capital did not enable virtuous cycles of investment, efficiency gains, and domestic growth, as envisioned by neoclassical economists (see Balassa 1982). Rather, short-term foreign capital inflows and mini

[1] Also known as the bankers' crisis, this crisis signalled the end of a profitability field day for many small financiers in Turkey who raised funds from local savers by promising abnormally high returns. The banker Kastelli was the most infamous of these Ponzi-type financiers, and hence bears the name of the 1982 crisis.

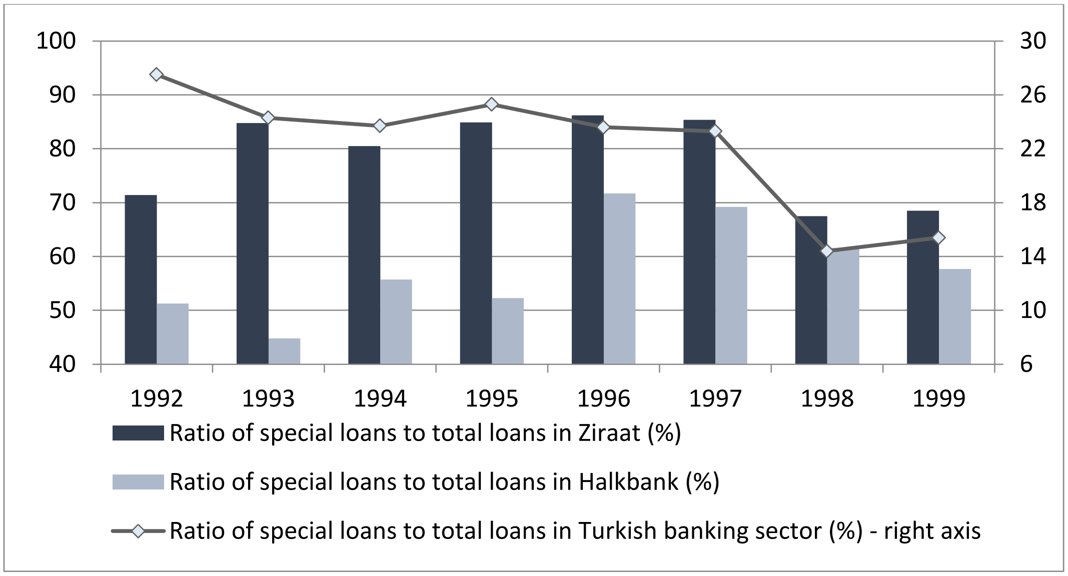
boom-bust cycles came to characterize Turkey's increasingly debt-led accumulation trajectory (Cizre-Sakallıoğlu and Yeldan 2000). A significant contradiction arose: economic volatility undermined Turkey's international creditworthiness and domestic stability but neoliberal transition increased the need for public credit due to shrinking public revenues.

Turkey's governing authorities saw an opportunity to use the public banks not for any developmental or socially progressive ends but to help overcome Turkey's fiscal troubles. The perceived opportunity involved the public banks' 'duty loss' mechanism. Duty losses are mandated financial losses (due to special loan and preferential credit provisionings) officially assigned to the public banks that should be compensated for by government transfers. In the postwar period duty losses were an institutionalized means by which state authorities could channel preferential credits and supports into specific economic sectors and regions of Turkey (Marois 2012, 58; 116). For decades authorities had used duty losses in fiscally sustainable ways to support postwar capitalist development (*cf*. Öztürk et al. 2010, 161-2; Önder and Özyıldırım 2013). Amidst the escalating economic volatility of post 1989 capital account liberalization, governing elites realized that they could hide government spending in the public banks' books (BRSA 2003, 10; OECD 1999, 57). According to Central Bank researchers (Özatay and Sak 2003, 16):

> the increasing financing needs of the Treasury led the government to finance some activities through loans taken from state banks. Instead of repaying the principal and the interest accrued, the Treasury allowed these nonperforming loans to be treated as performing loans by the state banks.

The historically-mandated developmental duty loss mechanism was thus turned on its head to help smooth Turkey's volatile economic transition to neoliberalism (Bağımsız Sosyal Bilimciler 2001, 21; Ergüneş 2008). While manageable in the short-term, the long-term consequences were unexpectedly grave. The unpaid duty losses had swelled from 2.2 percent of GNP in 1995 to 13 percent in 1999 (or from $2.77 to $19.2 billion) (World Bank 2000, 96). By 1997, and as the East Asian financial crisis kicked in, authorities had to begin scaling back duty loss transfers because of the accumulating financial risks they carried (Graph 1). The public banks' balance sheet, which had to be refinanced through short-term, and therefore more risky, financial liabilities, had become bloated with seemingly unrecoverable public sector debts (Özatay and Sak 2003, 16; 21). But this retreat of neoliberal support hit key constituencies most vulnerable to neoliberal transformation, such as farmers, SMEs, cooperatives, and tradespersons. Whereas the ratio of special loans to total loans hovered around 23 to 25 percent in the mid-1990s, this fell by about 10 percent in 1997-98. State authorities had meant to buttress neoliberal transition but unintentionally generated a situation of political and economic crisis of neoliberalism – the 2001 financial crisis.

Graph 1: Ratios of special loans in banking sector (1992 to 1999)



Source: BAT, *Bankalarımız* (1992-1999)

The financial rescue that followed in 2001 became a case of state authorities stepping in to save neoliberalism from itself (Marois 2012,165). On the one hand, the long term causes of the 2001 financial crisis link back to Turkey's post-1980s neoliberal turn (Savran 2002, 1). On the other hand, the immediate trigger reflected mounting fragilities in the financial sector and the IMF monitored 1999 disinflation programme, which pegged the TL to the USD and pre-announced the adjustments (see Akyüz and Boratav 2003, Yeldan 2006). While intended to bolster the credibility of monetary policy in Turkey, the 1999 programme unintentionally, again, unleashed a new incentive to borrow short term in USD and then invest in long-term TL securities. The IMF program paved the way for a sharp decline in foreign exchange asset/liability ratios in Turkey's commercial banks by 2000: the banks' open forex positions had exploded from about $3.5 billion in 1997 to over $12.5 billion in 1999 (Marois 2012, 120). Investing more in long-term government securities with short-term liabilities exposed banks to interest rate margin and the liquidity risks in the government debt market. Providing relief to the state budget in the medium term, the decline of interest rates and promoting capital inflows were the major targets of the three year disinflation programme, which had its first blow in November 2000 with a liquidity crisis (Alper 2001). An additional IMF loan of $10.5 billion enabled the coalition government to stick with the 1999 Programme, only to face an even more severe shock in February 2001, with a recurrent rush to foreign exchange and skyrocketing interest rates in the interbank money market.

Rather than reversing Turkey's neoliberal course, the 2001 state-led rescue and recovery further institutionalized the power of financial capital and the social logic of neoliberalism within the Turkish state (Marois 2011, 180). At the helm was the new, unelected Minister of the Economy, Kemal Derviş, who hurriedly crafted and implemented the market-oriented 2001 *Transition to a Strong Economy* platform. Banking change came under the associated umbrella of the 2001 *Banking Sector Restructuring Program* (BSRP). Primarily, the BSRP legalized drawing the costs of bank rescue into the state (that is, socializing them) and named the Banking Regulation and Supervision Agency (BRSA) as the agency charged with undertaking the recovery process. State authorities forced some $47 billion worth of funds ($44 billion in public, $2.7 in private funds) into the imploding banking sector, totalling about 30 percent of GDP (BRSA 2003, 6). In line with new international norms, state authorities institutionalized central bank independence and increased the autonomy of other financial regulators. The BSRP and the ensuing reforms also eliminated some capital groups from the banking sector and aimed at strengthening the remaining ones within the restructuring process of holding groups (Gültekin-Karakaş 2009). In terms of the public banks, the 2001 BSRP led to their immediate restructuring and to long-term market-oriented operational changes (see BRSA 2002). Authorities did not push immediate bank privatization because Vakıfbank, Halkbank and Ziraat controlled about a third of all banking assets and any rapid, wholesale sell-off would be fraught with political, economic, and social complications. The intention was to privatize the banks within a few years, but this too would not occur as planned. State authorities did, however, restructure the public banks so that they began to operate *as-if* they were private banks by internalizing new profit imperatives and by becoming subject to private sector regulatory frameworks (Önder and Özyıldırım 2013, 14-15).

The post-2001 neoliberalization of Turkey's public banks was a contested process. Bank workers, labour unions, peasants, and social progressives led marches, protests, and even occupations against what they perceived as a corrupt political bailout of private sector cronies and against the market-oriented changes to the state banks, which would impact popular access to financial services. But without ruling government support and without sustained multi-sector resistance and effective cross union collaboration, the 2001 BSRP proceeded and financial imperatives became more deeply rooted in Turkish society.

Yet it is also true that not until late 2005 was the now politically dominant Justice and Development Party (AKP; Adalet ve Kalkınma Partisi) government able to experiment with privatizing the restructured public banks. In the period before the 2008-09 global crisis, this trial involved the least controversial public bank, Vakıfbank, and an IPO for 25.18 per cent of its shares (which sold for $1.27 billion). This IPO was arguably to test the political process and to build popular consent for the process. A second IPO occurred in May 2007: a 24.98 percent stake in Halkbank sold for $1.9 billion. The IPOs served to internalise neoliberal profit imperatives through private share-ownership. It is significant that during the phase of AKP rule most politically and economically ripe for privatization only two public bank IPOs occurred (*cf*. Önis 2011). Instead, the AKP repeatedly extended the legal time limits on bank privatization, notably in July 2004, December 2005, and January 2007 (then more recently in November 2010 to extend the allowable period until late 2015, with no imminent changes seen by early 2016).

Further research is required on why this is so. However, in brief, five factors can help explain the relatively slow pace of bank privatization in Turkey. First, it took time for the public banks to recover from the 2001 crisis and to establish a more marketable operational structure for privatization. According to one Halk Bank senior manager, potential buyers want the banks' private clientele profiles (as opposed to just dealing in duty losses and government debt), and public banks without such loans and customers simply cannot be sold off to the private sector (confidential Interview, 24 August 2007, Istanbul). Second, there remains ongoing and unresolved intra-state debate on the functional roles of the state banks. Important governing ministers of the last decade, such as Ali Babacan, remained supportive of complete privatization. However, the state banks continue to serve mandated payment, deposit, and credit services at a national scale, which may not easily be replicated and maintained by private banks. As such, some financial regulatory authorities take a more pragmatic approach to privatization, suggesting that the process will not or should not be completed in the near future.[2] Third,

[2] In confidential interviews with Central Bank authorities, state bank managers, and BRSA authorities in 2007 and 2013, the unique role of Ziraat Bank in rural communities, in farming

the technical aspects of bank privatization were not easily resolved. The large size of the public banks militates against one-off block sales as the purchaser needs to be larger than the public banks (leaving only a few private domestic contenders, as the other public banks cannot bid) and foreign banks may be required to already have a presence in Turkey prior to bidding (as with earlier debates over whether to sell Halkbank as a block sale or via IPO). There are also questions for the competition authority, as any buyer of a public bank would become an immediate market marker. In practice, then, initial public offers (IPOs) have prevailed, but even here the Istanbul Stock Exchange (now Bourse Istanbul) needed to be better prepared for such large IPOs, and this has taken time. Fourth, the public banks are becoming instrumental for emerging AKP plans to expand Islamic financial alternatives (dubbed 'participation' banks) in Turkey since the global financial crisis. For example, the AKP founded the first publicly owned participation bank as a subsidiary of Ziraat in 2015. Vakifbank and Halkbank are expected to follow suit in 2016. Fifth, empirical evidence also suggests that the public banks in Turkey may issue loans for political reasons, notably during election cycles, while at the same time playing an important role in mitigating economic shocks, as explored below (Önder and Özyıldırım 2010 & 2013). In short, there are complex, and sometimes conflicting, political and economic logics behind the continued public banking presence in Turkey.

As such the public banks in Turkey spontaneously evolved within the confines of Turkey's transition to neoliberalism in ways intended to aid the transition but also in ways that ended up challenging neoliberalism. The balance of social forces remains neoliberal, yet this has not simply equated to bank privatization. Instead, the public banks have evolved into profit-oriented institutions while nonetheless maintaining vestiges of their developmentalist past. The 2008-09 would once again test the contradiction of their class-based credibility.

4.0 The 2008-09 Global Financial Crisis and Rise of Public Banking

The US sub-prime crisis that exploded in 2008 triggered one of the "great slowdowns in the history of the capitalist economy" (McNally 2015, 260). As one of many consequences, the crisis raised the economic profile of public banks (Mazzucato and Caetano 2015). The Addis Ababa UN *Financing for Development* Report cites, for example, the key role public banks can play in financing sustainable development, calling on international actors to better support these banks (UN 2015, 13-14). In Turkey the 2008-09 crisis has also revealed potentially new credibilities for Turkey's public banks, and a vexing contradiction for advocates of neoliberal development. Could Turkey's public banks be constitutive of neoliberal reproduction? We suggest 'yes'. Specifically, the 2008-09 crisis revealed that Turkey's public banks can (a) offer powerful countercyclical lending capacities amidst crisis and (b) do so without sacrificing profit imperatives. In this way the public banks helped to stabilize neoliberalism in crisis, while helping to mitigate crisis-induced economic impacts on important constituencies (like farmers and SMEs), while continuing to churn out record profits.

4.1 The Public Banks' Counter-cyclical Lending amidst Crisis

With the crisis unfolding globally in 2008-09, foreign investors led a so-called 'flight to safety' as globally mobile capital fled emerging capitalisms for the security of the US dollar (Akyüz 2014). In Turkey, too, markets suffered a massive reversal in capital flows,

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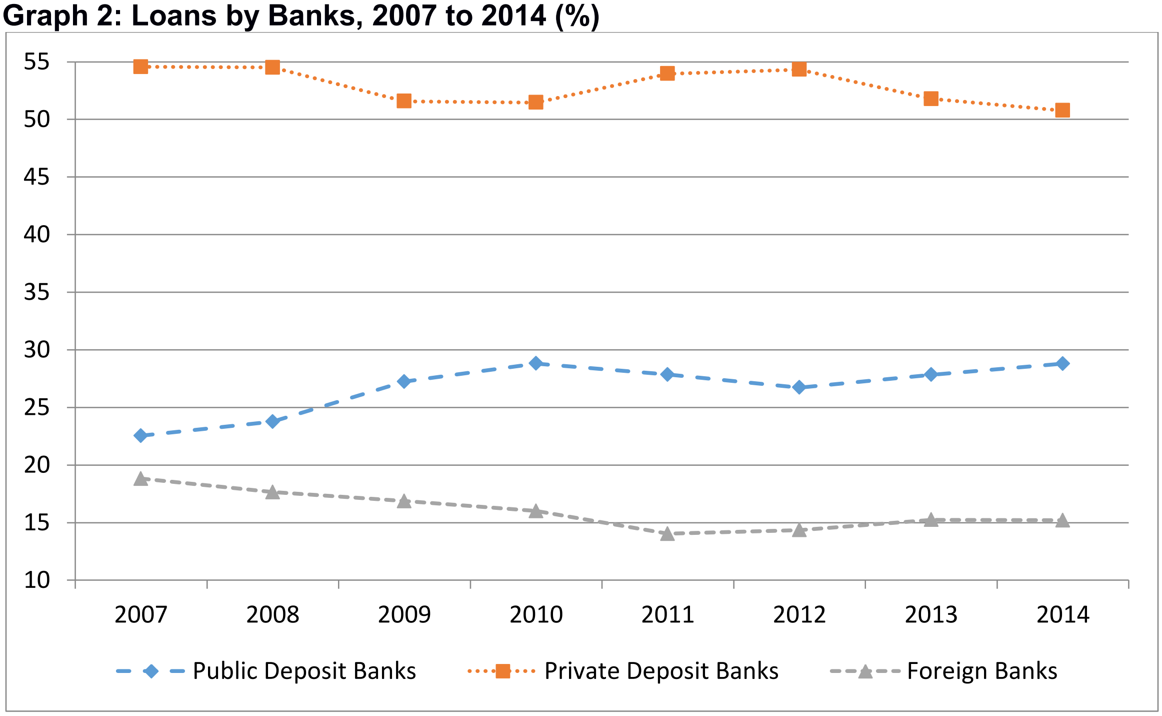
regions, and in nation-wide payment services was repeatedly emphasised. We were not granted interviews on this topic with AKP officials.

which collapsed from inflows of more than $60 billion in mid-2008 to outflows of almost $10 billion by the third quarter of 2009 (CBRT 2010, 9). The country's GDP growth plummeted from five percent in 2007 to 0.7 percent in 2008 and then to -4.8 percent in 2009 (IMF 2012, 47). Industrial output capacity utilization shrank from about 80 percent pre-crisis to just over 60 percent by early 2009 (CBRT 2011, 10). Unemployment climbed from 10 percent in 2007 to 14 percent in 2009 (IMF 2012, 56). Recent analyses of the global crisis confirm what many scholars had already known. Private banks, especially foreign, are pro-cyclical lenders – that is, they expand credits in the good times and slash them in the bad, exacerbating the peaks of both business cycles (World Bank 2012, 12; Bertay et al. 2015). Post crisis research also confirms that public banks can effectively operate counter-cyclically (Brei and Schclarek 2013). Turkey was no exception to this pattern.

In Turkey, as crisis struck, international analyses have pointed out that the private banks, domestic and foreign, began to cut back on new lending and to shift money resources into government debt in order to decrease lending risks amidst the crisis; by contrast, the public banks increased lending (Mihaljek 2010; IMF 2012, 24). Graph 2 illustrates this. Between 2008 and 2010, private domestic banks reduced lending from 54.5 percent to 51.6 percent of total loans and the foreign banks from 17.6 to 16 percent. By contrast, the public banks expanded lending from 23.8 to 28.8 percent of total loans. Notably during 2009 the public banks increased loans by 19 percent over 2008 whereas the private commercial banks decreased loans by 1.75 percent (BAT 2010). A recent empirical study of Turkey from 1992 to 2010 confirms the developmental benefits, concluding that public bank lending at times of crisis has had "a significant and positive effect on local growth in all provinces" (Önder and Özyıldırım 2013, 14).

Graph 2: Loans by Banks, 2007 to 2014 (%)



Source: BAT 2015b

Empirical evidence reveals *that* the public banks lent counter-cyclically, but w*hy* they did so is less straightforward. One reason is tied to ownership. As long-held public institutions, the banks had historical mandates and contemporary capacity to support the Turkish economy. In the case of Ziraat, the General Manager wrote that its increased lending during the crisis was an issue of “social responsibility” (Ziraat 2010, 13-14). At the same time, public control suggests a sovereign guarantee, which enables public bank managers to lend more easily than private sector managers beholden to profit imperatives. For example, in a confidential interview, one Halkbank branch manager referred to the bank’s history of “non-profit oriented” (pre-2001) support for artisans, cooperatives, SMEs, and tradespersons that can still influence today’s decisions (June 2013, Samsun, Turkey). The manager also pointed to the direction given by then Halkbank General Manager, Hüseyin Aydın, to “not put away the umbrella when it rains” (that is, to continue lending) much as with Ziraat. The manager went on to emphasize that this was also the “mentality of the branch managers – to support the people – and an ethical code of the institution that comes from its background”. Despite the 2001 BSRP reforms, there remain cultural and developmentalist remnants of past lending practices. Neoliberal profit imperatives can be mediated by institutional legacies and local banking agents.

Another reason why public bank lending increased has to do with the particularities of capitalist development in Turkey. For example, SMEs (Halkbank’s core client base) amount to 99.9 percent of all enterprises, and SMEs employed 77 percent of the active workforce in 2009 (TÜİK, News Bulletin 2012, no 13146). As the already largest player in SME loans, Halkbank recorded a 19.6 percent increase in the volume of SME loans in 2009 and 26.3 percent increase in 2010 (Halkbank 2010). Halkbank benefited from its established contracts in the Organized Industrial Zones and worked with development agencies as well as Turkey’s Small and Medium Enterprises Development Organization (KOSGEB) to expand its share in this market amidst crisis (Halkbank 2010). Given that unemployment hit 14 percent in 2009, there is a political economic logic to a public institution like Halkbank not calling in SME loans as this would exacerbate the pro-cyclical turn of the private banks and the crisis’ impact on the economy. In fact, Halkbank had already restarted its provisioning of cheap loans to trades and craftspersons in 2004. The government determined the payments due to Halkbank based on the interest rate differentials – up to 50 percent of interest payments can be set as the bank’s loss. This mechanism largely determined Halkbank’s income loss payments in the post-2001 period (Table 2). By 2014, more than 300 000 trades and craftspersons have benefited from the scheme (Halkbank 2014). Halkbank has thus emerged out of the 2001 crisis as a vital source of financial services and special loans for SMEs. With no imminent threat to economic stability or the banks’ profitability (see Table 3 below), this is precisely why public banks can be effective agents of economic stability. In different and unequal ways, industry, workers, and government benefited.

Ziraat, too, play an active role supporting Turkey’s agricultural producers (constituting about 25 percent of Turkey’s workforce) against the impact of global crisis. One the one hand, this involved subsidized counter-cyclical lending (that is, special agricultural credits discounted by 25 to 100 percent of market rates). Ziraat’s 2009 Annual Report states the bank offered nearly two thirds of all new lending (about TL5 billion) as the crisis peaked between September 2008 and June 2009 (Ziraat 2010). On the other hand, Ziraat engaged in another form of countercyclical-*like* lending by not immediately foreclosing on distressed loans.[3] According to Ziraat, the bank aided Turkish farmers weather the 2008-09 crisis by postponing the payments of TL3.1 billion in loans

[3] An instructive contrast can be found in the actions of some private banks in Turkey that repossessed major tracks of lands for speculative accumulation purposes, at times dispossessing entire villages (see the following news reports, Karabağlı 2012; Antalya Güncel 2011).

for 224 000 small-scale producers through its “easy repayment package” (Ziraat 2011). This strategy has a developmental logic. A recent empirical study suggests that despite a high pace of rural to urban migration, an ageing of village population, and a plummeting proportion of farmers in the workforce, there remain resilient agriculturally based communities in Anatolia, which benefit from official income transfers, remittances, and pensions (Öztürk et al. 2014). Ziraat support contributes to the survival of family-owned smallholdings, much as Halkbank supports the viability of SMEs. The public banks can function as nation-wide institutional conduits of government policy, and do so within an otherwise neoliberal strategy of development.

Presently, Halkbank and Ziraat can discount their credits *without* undermining their annual returns. Whereas duty losses did not have to be pre-paid prior to 2001, now the government must make advance ‘income loss’ payments in compensation (PER 2008, 15). Table 2 shows the Turkish Treasury’s income loss payments to Ziraat and Halkbank since 2002 (Vakıfbank does not participate). While there has been consistent growth in payments made, there was a notable jump in 2009 from 2008 for both Ziraat (from TL272 to 416 million) and Halkbank (from TL204 to 309 million) as state authorities sought to mitigate the impact of the crisis on farmers and SMEs. Later data shows bank income loss payments combined with Agricultural Credit Cooperatives, which amounted transfers of TL900 million TL in 2011, TL1.66 billion in 2012, and TL1.93 billion TL in 2013 (PER 2014). These official transfers reflect the cost of interest rate subsidization, which the actual loan amounts provided exceed. It is also worth signalling that without the pre-existing institutional structures and national geographical reach of Ziraat and Halkbank being in place, the effective unrolling of these economic supports would be unlikely.

Table 2: Income Loss Payments to Ziraat and Halkbank, 2002 to 2011 (million TL)

	Ziraat	**Halkbank**
2002	-	16.3
2003	-	38.0
2004	1.0	79.4
2005	24.9	76.8
2006	109.2	111.0
2007	168.9	175.8
2008	272.4	204.4
2009	415.8	308.9
2010	354.9	202.4
2011	564.8	248.9
Total	1911.9	1462.1

Source: Public Enterprises Report (2012), Undersecretariat of Treasury

Regardless of neoliberal deepening since 2001, the public banks have thus evolved in neoliberalism in credible ways, notably in their capacity to counter the impact of crises politically and economically – while remaining profitable.

4.2 The Profitability of Turkey’s Public Banks in Neoliberalism

The post-2001 restructuring of the public banks was intended to make them marketable for privatization. Subsequent successful IPOs suggest this end was achieved. However, this same process has had the unintended consequence of making the banks a long-term and significant source of annual public revenue for the state. The public banks are more ‘saleable’ but also more precious – insofar as their revenues contribute to Turkey’s much-valued fiscal surplus, which is a key component of current creditworthiness assessments (IMF 2014, 41). This contradicts the neoliberal logic for bank privatization, which depends on a timeless notion of public sector inefficiency.

Since 2002 the public banks have recorded solid levels of profit, often outperforming the private banks (Table 3). In 2009, notably, the public banks outperformed the private domestic banks, recording a return on assets (ROA) of 2.6 percent. This ROA is about two and a half times more than what banks often make in the advanced capitalisms like the UK and US (at about 1 percent ROA) (see OECD 2010). The private banks, too, were highly profitable yet opted to cut lending amidst the crisis. While lending counter-cyclically, Turkey’s public banks generated $4.3 billion in additional public revenue in 2009 (BAT 2010, I-45).

Table 3: Performance of Commercial Banks in Turkey - Return on Assets (Selected years)

	2002	2004	2006	2008	2009	2010	2011	2012	2013	2014	2015*
State-owned commercial banks ROA (%)	1.6	2.5	2.6	1.9	2.6	2.3	1.6	1.8	1.6	1.4	1.3
Private commercial banks ROA (%)	2.0	1.6	1.8	1.8	2.4	2.4	1.7	1.8	1.6	1.3	1.0

Source: BAT 2015a; BRSA 2015 (* as of September 2015)

There are knock-on fiscal effects. In contrast to the private banks, Ziraat’s returns are neither repatriated to a foreign banks’ home office nor redirected to a domestic banks’ larger holding group. At the same time, the public banks duly pay their taxes. For example, Ziraat paid out TL906 million ($545 million) in taxes in 2009 (Ziraat 2010, 22). Such incoming money, moreover, is fungible. Authorities can use Ziraat’s returns and taxes for any number of politically-determined fiscal activities – from debt repayment to the cross subsidization of public infrastructure projects and social service funding (or not, of course, and could be used for nefarious purposes without proper democratic oversight). According to the IMF the public banks combined, including the Central Bank, have directly reduced annual public debt by 0.6, 0.7, 0.7, 1.2, and 1.1 percent from 2006 to 2010 inclusive (2012, 63). The sustained reduction of public debt bolsters AKP legitimacy and supports Turkey’s international creditworthiness vital to accessing flows of capital. It also enlarges the space for political manoeuvre enjoyed by the government. For example, the 64th Government formed by the AKP after the November 2015 elections promised the provision of new incentives for entrepreneurs and the private sector, as the lower public debt levels enabled such stimulus measures. Given the immense fiscal pressures of neoliberalism, such revenue generation is difficult for any government to forgo regardless of its ideological orientation. This constitutes another reason why the AKP has not fully privatized the public banks, and points towards the banks’ persisted, yet evolved, class-based credibility.

Several factors help account for the banks’ performance. For one, in an unorthodox move the CBRT aggressively cut interest rates at the start of the 2008-09 crisis. Whereas the official rate was 16.75 percent in October 2008, by October 2009 it was 10 percent less, or 6.75 percent. This benefited public and private banks alike as they could generate returns from the widening interest rate margins. Contingently, the CBRT was *able* to aggressively cut domestic interest rates because US interest rates remained much lower, and hence the risk of capital flight was mitigated (BAT 2010, 1-2; BAT 2009). The risk of the unorthodox interest rate cut was partially mitigated by the still over 30 percent public control of the banking sector in Turkey. State authorities could be assured the public banks would not engage in capital strikes or an investment credit rationing backlash. Likewise, Turkey's fiscal surplus helped assure foreign capital of investing in Turkey. At the same time, the public banks were still able to access foreign capital markets given implicit sovereign guarantees.

Another factor was that Turkish citizens saw the public banks as 'safe havens' for their savings, especially during the crisis. Over the course of 2008-09, deposits grew by over 9 percent in Halkbank (2010, 5) and by 17 percent in Ziraat (2010, 14). Turkey's public sector, too, channels deposits and payments through the public banks. Domestic savings thus account for up to three quarters of the public banks' deposit base, which offer the public banks a stable and cheap source of loanable capital (BAT 2009, 71-4; 2012, I-6). To further safeguard their growing returns, bank managers, public and private, held down increases in operating and staff expenses in 2008-09 (Marois 2012, 187-8). The result was that banking sector net income exploded by 52 percent to TL19.5 billion in 2009 (BAT 2010, I-46).

In this phase of neoliberalism since the 2008-09 crisis, Turkey's public banks have assumed new credibilities that are inconsistent with the ideology of neoliberalism but not its volatile practicality. On the one hand, the public banks provide neoliberal state authorities with a powerful counter-cyclical lending tool. Moreover, neoliberal restructuring of the banks has meant the public banks remain profit- and revenue-generating. This helps support neoliberal economic continuity, to the benefit of capital in Turkey. On the other hand, farmers and SMEs (and by extension, workers via continued jobs) benefit from the provisioning of subsidized credits. That said, neither the public banks' credits nor anything else the ruling AKP government has done since 2002 has improved Turkey's structurally abysmal position, alongside Mexico and Chile, at the very bottom of OECD inequality rankings (OECD 2014, 111).

5.0 Conclusion: Public Banking Credibility and Class in and beyond Neoliberalism?

Contrary to conventional pre-social understandings, there is nothing straightforward about the operations, functions, and historical changes in public banks. Indeed, even under neoliberal capitalism public banks can acquire levels of credibility that enable them to persist – against all neoliberal ideological odds. As Ho argues "If certain institutions have emerged, and more importantly, *persist* as a result of spontaneous, endogenous development, they are likely to fulfill a certain function, and apparently are perceived as credible." (2013, 1095) Our historical materialist approach locates such credibility within the confines of capitalism. We have emphasized the institutions' social content and demonstrated how credibility is evolving and contradictory in class terms. We find, then, that ownership is not determining in itself, but subject to changing historical-structural and social forces. In the case of Turkey's public banks, the balance of influence has been on the side of capitalist relations. Workers, small producers, and peasant farmers have benefited through enhanced financial access and supportive credits channelled through the public banks. Yet in doing so the public banks have helped to produce, stabilize, and reproduce otherwise exploitative capital–labour relations in Turkey, if not without unintended consequences.

Our study thus points to the historical specificity of Turkey's public banks underwriting capitalist continuity. But this historical role is not inevitably so. Given a different constellation of class forces, public banks could have taken a different turn in history and might yet still underwrite a break in neoliberalism. A social content framework allows interpretive room for the potentiality of workers, peasants, and popular classes to reclaim and reshape vital institutions like public banks in their own collective interests, that is, for change. In Turkey, given its existing institutional and material public banking capacity, the possibility remains, but only potentially so and if matched by collective political will.

Any strategizing around mobilizing public banking to move beyond neoliberalism must be done cautiously, as even the best intentions can have unintended and contradictory consequences. For this critical scholars need to excavate actually existing and most certainly complex examples of public banking, as in the case of Turkey, and how such cases might function to counter-act neoliberal competitive imperatives and class rule. Yet it is here that policy alternatives to neoliberalism are on unsure footings. Very little research details the institutional functions of existing alternative banks.[4] And one must not presume public banking, in itself, is any alternative at all. The case of Turkey certainly undermines any such over-simplifications. Forms of private banking (community, worker collective, cooperative), too, can offer important lessons. Likewise, hybrid public and corporatized state-owned forms can mitigate otherwise intense neoliberal competitive and profit imperatives in social developmental ways. Still, all these forms of banking may not – it all *depends* on the specific and evolving social content defining particular banking institutions' and their wider systems of social reproduction.

[4] For some examples of public banking, see Butzbach and von Mettenheim 2014). Intriguing specific examples include the Banco Popular in Costa Rica (see www.bancopopular.fi.cr) and the Bank for Social Policy in Vietnam (Sikor 2012, 1092-3).

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