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THE EVOLUTION OF THE THEORY OF FINANCIALIZATION:

THE CASE OF TURKEY

YÜKSEK LİSANS TEZİ

Sinem BAĞÇE

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Abbreviations

BDDK **:** Banking Regulation and Supervision Agency

CB **:** Central Bank

GATT **:**General Agreement on Tariffs and Trade

GDP **:** Gross Domestic Product

GNP **:**Gross National Product

Ibid **:**In the Place Mentioned Before

IMF **:** International Monetary Fund

MKK **:** Central Securities Depository Institutions

Op. cit. **:** In the Work Cited

SPK **:** Capital Markets Board of Turkey

TL **:**Turkish Lira

TCMB **:**Central Bank of Turkey

OECD **:**Organization for Economic Cooperation and Development

USA **:**United States of America

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RESUME

Cependant, il existe un désaccord permanent dans la littérature concernant la façon (conceptuelle) de classifier ces changements ; en respect de quelles caractéristiques du capitalisme faut-il essayer de définir ces transformations ; et en quelle vertu peut-on appliquer une de ces définitions.

Dans ce débat, l'auteur aimerais souligner quelques contributions théoriques dans un ordre de développement des modèles d'accumulation du capital. Les tendances historiques du système capitaliste, la transformation de la nature de la relation entre les marchés réels et financiers, et les réponses correspondantes des acteurs économiques seront soigneusement délimitées. Dans sa partie, l'auteur essayera de définir une approche structurelle qui sera utilisée pour analyser le processus de financiarisation.

Cette thèse tente de donner un aperçu théorique de la financiarisation. Toutefois, cette étude n'est pas seulement un examen chronologique de la littérature. Les théories critiques sur les moments déterminants et historiques de l'accumulation du capital seront également exposées. Chaque étape de l'expansion financière de l'économie mondiale sera ajoutée au nouveau concept. De ce point de vue, le développement historique du capitalisme sera expliqué par la contribution de chercheurs en sciences économique.

Les débats sur la phase finale du capitalisme sont examinés dans la thèse, cependant la récente déclaration d' Hoca sera le principal point de référence sur la littérature de la théorie de la financiarisation. Quand bien même Hoca a quelques contradictions concernant Lapavistas, cette étude suit la progression de la théorie de Lapavitsas, du point de vue des relations transformées des agents économiques. L'auteur aimerais également mettre une contribution à la définition de

financiarisation en considérant les salariés, les groupes à faibles revenus ou de la classe ouvrière dans une vaste description. Nous pouvons résumer le but principal de cette étude ainsi : l'auteur essaie de combiner la théorie de la financiarisation très abstraite d'Hoca (2012), avec une autre plus concrète, à savoir la théorie de Lapavitsas.

Les crises financières des années 1990 ont soulevés l'attention des chercheurs sur le rôle des marchés financiers dans le capitalisme. Dès lors, la question d'intérêt est de savoir si les marchés financier, dont le rôle est devenu d'autant plus important, peut être considéré comme dominant ainsi que le domaine moteur de l'activité économique. Si tel est le cas, la question plus difficile qui pourrait être posé serait de savoir si le capitalisme a atteint une nouvelle phase ? Si les réponses à ces questions sont affirmatives, peut-on considérer la financiarisation comme un aspect déterminant de cette nouvelle étape du capitalisme ?

Les théories marxistes de la financiarisation insistent sur la capacité d'accélération du modèle de l'accumulation capitaliste. Avec l'ampleur croissante de la spéculation dans les marchés, la tendance du capitalisme à provoquer des crises est devenue plus forte. Marx a également affirmé que la monopolisation est un caractère intrinsèque du système. Cette tendance conduit finalement à la financiarisation qui fonctionne comme un cadre dans lequel la monopolisation du capital se produit. Le sort du capitalisme ne peut être séparé des effets de la financiarisation, « qui s'exprime par la marchandisation croissante du capital dans le développement du capitalisme, et qui est aggravé par les crises ». (Hoca, 2012)"[1].

Afin d'éviter toute ambiguïté sur la loi tendancielle de la baisse du taux de profit, et le concept de plus-value, qui est l'élémentde basede la décomposition duprofit, cela doit être définià l'avance. Un exemple simple tiré des écrits de Marx est donné ainsi :

[1]Ibid.

« Le salaire et la journée de travail étant donnés, un capital variable déterminé, un capital de 100 par exemple, correspond à l'emploi d'un nombre déterminé d'ouvriers et est la caractéristique de ce nombre. Supposons que le salaire de 100 ouvriers soit de 100 £ pendant une semaine; si ces ouvriers fournissent autant de surtravail que de travail (c'est-à-dire s'ils travaillent une moitié du temps pour reproduire leur salaire et l'autre moitié pour créer de la plus-value pour le capitaliste), ils produiront une valeur de 200 £, comprenant 100 £ de plusvalue. Le taux de la plus-value sera donc de 100 % et il donnera lieu, ainsi que nous l'avons vu, à des taux de profit p' très différents, suivant l'importance du capital constant c et du capital total C, car le taux du profit est exprimé par pl / C.

Si c = 50 et v = 100; p' = 100/150 = 66 %
Si c = 100 et v = 100; p' = 100/200 = 50 %
Si c = 200 et v = 100; p' = 100/300 = 33 %
Si c = 300 et v = 100; p' = 100/400 = 25 %
Si c = 400 et v = 100; p' = 100/500 = 20 %

Un même taux de plus-value, avec un même degré d'exploitation du travail, donne lieu à un taux de profit allant en décroissant, lorsque la valeur du capital constant et par conséquent la valeur du capital total vont en augmentant.

Si l'on admet que cette variation du capital se manifeste, non seulement dans quelques industries, mais plus ou moins dans toutes les branches de la production ou du moins dans les plus importantes, de telle sorte que la composition organique du capital social moyen s'en trouve affectée, cet accroissement général du capital constant relativement au capital variable, entraînera nécessairement une baisse graduelle du taux général du profit, bien que le taux de la plusvalue, c'est-à-dire l'exploitation du travail par le capital, reste invariable. »

En raison de ladiminution destauxdes taux de profit, les entreprises ont tendance àtransférerleurargent à partir d'actifs réels, quidispose d'une margede profitrelativementfaible, à des actifs financiers. Pour remplacer la perted’'investissementmateriel, les entreprises essaient de compenserl'écart deprofità traversla création d'unportefeuille d'investissement. Il est un faitcrucial que leratio de la valeurréelle du marché arelativementdiminuéet n'est pluscomparableavecle ratiodes instruments financiers dérivéssurle total des actifs. "La conclusion de l'analyse empirique, a soutenula déclarationexpliquant lesrelationsdivergentes entrel'investissementen financeet les marchésréels.Ils affirmentqu'il y a eu desrelationscontroverséesentrela loi de labaisse tendancielle du tauxde profitet l’importancedes actifs financiersdans les décisionsd'investissement des entreprises.

Selon la définition dela loi de centralisation du capital, l'accumulation du capitalest un processus lentqui ne peut pasêtre considéré commele motifmoteur du développementde la société.Cependant,la centralisation du capital, en tant que loi de mouvementdans le capitalisme,semble être lephénomèneefficacede la vie matérielle.

Cette histoire congestionnée a atteint la divergence entre la politique du système bancaire des crédits d’investissement immobiliers aux crédits de consommation individuel. Le processus de la progression de la charge de la dette sur les ménages génère une relation indirecte entre les travailleurs et l’employeur. En raison de l’importante dette non partagée, les crédits aux ménages ont changés la priorité de la classe ouvrière en contradiction d’employé à la banque.

La racine du modèle d’accumulation du capital a évolué pour accommoder les transactions monétaires. Marx avait défini l’argent marchandisé par la marchandisation du capital qui est en circulation plutôt que comme une valeur. En outre, Hoca a souligné que la forme de dominance du capital, qui est appelée communément capital financier, a atteint une transformation irréversible. Cette transformation signifie la capacité du capital d’être une marchandise au-delà de son rôle de valeur abstraite ou de tout autre produit réel. Par ailleurs, le système capitaliste a sa propre dynamique interne, la maximisation du profit, depuis le marché financier qui pourrait être décrit, non comme étant une chaine de plus-value, mais une circulation irréelle de l'argent comme une marchandise. Selon les mots d'Hoca :

« Le capital financier circule dans des marchés financiers et est contrôlé par la classe des capitalistes financiers principalement par le biais des institutions financières, et monopolise le capital industriel en constituant une part importante et grandissante de celui-ci, en particulier suite aux crises ».

La financiarisation est un modèle d'accumulation structurellement différente qui a évolué à partir de la modernisation du modèle capitaliste à travers les transactions d'argent marchandisés. Dans les versions plus récentes de financiarisation, il y a eu des relations principalement transformées (i) entre les ouvriers et les capitalistes; (ii) entre les capitalistes et les intermédiaires financiers, et enfin (iii) entre ouvrier et l'État

La partie concernant la Turquie a essayé d'expliquer l'évolution historique du processus de financiarisation de l'économie turque. Toutefois, dans ce cadre, l'accent n'est pas particulièrement mis sur le système bancaire, il a également souligné les relations de dépendance de la Turquie tirées de l'héritage du temps d'avant la République. Les paramètres internes sont le support de régime intermédiaire avec la position de pré-capitaliste. Le système bancaire est prématuré des années 1930 aux années 1970, lorsque les entrepreneurs privés avaient commencé à prendre le rôle de toutes les activités intermédiaires. Depuis le début des années 1970, les effets de la crise mondiale ont impacté l'économie nationale. En conséquence des décisions du 24 Janvier, les politiques économiques néolibérales ont été dominantes. Dans le sous-thème de la transformation de l'économie turque en 2000, les changements structurels des relations des acteurs économiques ont une analyse cohérente.

ÖZET

Marksizm'in temel kavramlarından biri olan Mali Sermaye teorisi Marks'ın sermaye teorisinden hareketle geliştirilmiştir. 1970'li yıllardan itibaren hâkimiyetini güçlendirmiş olan finans-kapital, sanayi sermayesini egemenliği altında almış ve en son aşamada finansal/reel piyasalar arasındaki farkı ortadan kaldırmıştır.

Finansal krizler, sosyal bilimcilerin mali piyasaların kapitalizmdeki rolüne dikkat çekmiş oldu. O zamandan bu yana, irdelemeye devam edilen durum finansal piyasaların baskın rolü olmuştur. Bunun yanı sıra ekonomik faaliyetlerin itici gücü haline gelmiş finans-kapitalle birlikte dünya ekonomisinde yaşanan dönüşüm;globalleşme, neo-liberalizm gibi kavramlarla açıklamaya çalışmıştır. Ancak, bu kavramların iktisadi yapıyı açıklamadaki yetersizliği yeni tartışmaları da beraberinde getirmiştir. Bu noktada bağlayıcı sorunsal; finansal sermayenin baskın olduğu yeni bir birikim modelinin ortaya çıkmasına dair olacaktır.

Kapitalist birikim modeli meta-sermaye akımlarına evrilmiştir.[2] Kapitalizmin temel dinamiği, kar oranlarını maksimum düzeye çıkarma çabası, finansal piyasalar aracılığıyla varlığını sürdürebilir hale gelmiştir. Bu dinamik, reel üretimde oluşturulan artı değere kanalize olarak değil, hatta gerçek piyasalarda mevcut herhangi bir değere mutlaka karşılık olmadan, "meta olarak para" üzerinden yeniden üretilir olmuştur. Ampirik çalışmalarından yola çıkılarak[3] kâr oranının düşme eğilimi ve firmaların yatırımlarında finansal varlıklara yönelmeleri arasında eş yönlü bir ilişki olduğu ortaya konmuştur. Bu anlamda finansal derinliğin artışı ve kapitalizm temel hareket yasaları arasında çelişkili olmayan bir gidişat söz konusudur.

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[2]Bülent Hoca, "**A Suggestion for a New Definition of The Concept of Finance Capital Using Marx's Notion of 'Capital as Commodity**", Cambridge Journal of Economics, 36(2), 2012, pg. 419-434.
[3]Özgür Orhangazi, "**Financialization and capital accumulation in the non-financial corporate sector: A theoretical and empirical investigation on the US economy: 1973–2003",** Cambridge Journal of Economics, 32(6), 2008, pg. 863-886.

Tezin teorik çerçevesini oluştururken koyduğu temel varsayım; toplam sermayede genişleme olsa dahi kar oranlarındaki düşme eğiliminde olduğudur. Kar oranlarının düşme eğilimi yasası Marks'ın anlatımıyla şu biçimde özetlenmiştir;

"Ücret ile işgünü veri olarak ele alındığında, 100 birim olarak belirlenmiş değişken sermaye işçi sayısını temsil etmektedir Diyelim ki 100 £, 100 işçinin bir haftalık ücreti olsun. Bu işçilerin, eşit miktarlarda gerekli ve artı-emek harcadıkları, günde, kendileri için, yani ücretlerinin yeniden-üretimi için çalıştıkları kadar, kapitalist için, yani artı-değer üretmek için çalıştıkları kabul edildiğinde, bu işçilerin yarattığı toplam ürünlerinin değeri = 200 £ olacaktır. Ürettikleri art-değer miktarı ise 100 £'dur. Artı-değer oranı, a/d = %100'dür. Ama gördüğümüz gibi, bu artı-değer oranı, kendisini, kâr oranı a: S olduğu için, değişmeyen sermaye s ve dolayısıyla toplam sermaye S'nin farklı büyüklüklerine bağlı olarak, çok farklı kâr oranları ile ifade eder. Artı-değer oranı %100 olduğuna göre:

c = 50, v = 100, => p' = 100/150 = 66⅔%;
c = 100, v = 100, => p' = 100/200 = 50%;
c = 200, v = 100, => p' = 100/300 = 33⅓%;
c = 300, v = 100, => p' = 100/400 = 25%;
c = 400, v = 100, => p' = 100/500 = 20%."

Toplam sermayenin ortalama organik bileşiminde değişmelere neden olduğu varsayılırsa, artı-değer oranı ya da emeğin sermaye tarafından sömürülme yoğunluğu aynı kaldığı sürece, değişmeyen sermayenin değişen sermayeye göre tedrici büyümesi, zorunlu olarak, genel kâr oranında tedrici bir düşmeye yol açar."[4]

Kapitalizmin rekabet ortamı, piyasa aktörlerini daha fazla sabit sermaye yatırımlarına zorlar ve sermayenin organik bileşimi, değişken sermayenin sabit sermaye oranı, giderek daha düşük seviyelere iner. Bu sebeple firmalar, gelirlerini gerçek varlıklarından finansal varlıklara aktarmak

[4]K. Marx, **Capital**: Volume 3, Part III. The Law of the Tendency of the Rate of Profit to Fall Chapter 13, The Law as Such, London, Penguin Books, 1981.

eğilimindedir. Firmaların yatırım portföyleri, reel yatırımlardan kaynaklanan kayıpları telafi edebilmek adına, ağırlıklı olarak görece yüksek kar oranlarına sahip finansal kâğıtlardan oluşmaktadır.[5]

Son yirmi yılda, bankacılık politikalarının odak noktası reel sektör kredilerden bireysel tüketim kredileri kaymıştır. Firmalar ve finansal aracıların güçlü ekonomik bağları göz önüne alındığında, ağır borç yükü altında sokulmuş ücretliler esnek işgücü piyasaları karşısında güçsüz ve güvencesiz kalmıştır. Daha pek çok ekonomik boyun eğdirme mekanizmalarıyla işçi sınıfı baskı altına alınmıştır. İşçi ve işveren arasındaki ezeli mücadele sekteye uğramış, finansal aracı kurumlar ve bankacılık sistemi bu ilişkide araya girerek tampon rolü üstlenmiştir.[6] Böylece, işçi ve işveren arasında dolaylı bir ilişki ortaya çıkmıştır. Finansallaşma ekonomik aktörler arasındaki ilişkileri dönüşüme uğratmış ve tüm ilişkiler ağı, dolaylı ilişkiler ağına dönüşmüştür.

Bu çalışmanın temel amacı finansallaşma teorisine ait literatürdeki önemli katkıları yeniden okumaya çalışmak ve finansallaşma tanımlamalarını eleştirel olarak yeniden değerlendirmektir. İkinci bölümde, Türkiye'nin finansallaşma süreci analiz edilecek ve yapısal dönüşümlerin ideolojik temellerine vurgu yapılacaktır.

Bu çalışma kapitalist birikimin ilerleyişini açıklamaya çalışan teorik köşe taşlarını tarihsel bir çerçeve ile ortaya koymaya, finansallaşma sürecini, kapitalizmin hareket yasalarının rasyonalitesine vurgu yaparak birikimin aşamalarını incelemeye çalışmaktadır. Son olarak, yazar finansallaşma'nın daha geniş bir tanımını yapabilmeyi amaçlamaktadır.

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[5]N. Stravelakis, "**Marx's Theory of Crisis in the Context of Financialisation**", Analytical Insights on the Current Crisis", 2012.
[6]Costas Lapavitsas Financialized Capitalism: Crisis And Financial Expropriation. Historical Materialism, 17(2), 2009, pg. 114-148.

Ekonomideki hızlı büyüme oranları, Neoliberal politikalar, sermayenin küresel düzeyde tabana yayılması, bilgi-işlem teknolojilerindeki devrimsel nitelikteki gelişim finansal aktörlerin merkezi rolünü dönüşüme uğratmış ve kristalize etmiştir. Fakat bu dönüşümleri tanımlamak ve kavramsallaştırmak ve kategorize etmek konusunda literatür oldukça tartışmalı bir süreç yaşamaktadır. Bu çalışma bu dönüşümleri derinlemesine analiz etmeyecek olsa da tartışmanın ucundan tutmakta, ekonomik aktörler arasındaki dönüme uğramış ilişkileri tanımlamalara indirgenmiş bir bölümü de içermektedir. Bu bölümde yazar, kapitalist sistemin tarihsel eğilimlerinin reel ve finansal piyasalardaki ekonomik aktörler arasındaki ilişkinin doğal olmayan dönüşümüne etkisini dikkatle ortaya koymaya çalışmaktadır. Dönüşüm olarak ifade edilen ilişkiler finansallaşma sürecini yeniden tariflemede ana etken halini alacaktır.

Birinci bölüm kapitalist birikim modelinin aşamasal gelişimine ilişkin bazı ciddi teorik katkıları vurgulayacaktır. Tezin tam anlamıyla sunmaya çalıştığı finansallaşma teorisinin evrimini içeren teorik araştırmadır. Ancak, sadece kronolojik bir literatür taraması değildir. Sermaye birikiminin tarihsel dönüm noktalarını analiz etmeye çalışan önemli teorik katkılar ele alınacaktır. Küresel ekonominin finansal açılımlarını her aşamasında yeniden kuramsallaştırmış yaklaşımlar incelenecektir. Böylece, kapitalizmin tarihsel gelişimi finansallşama teorisi üzerinden anlatılmış olacaktır.

Hoca’nın sunduğu katkı kapitalizmin en son aşamasına dair yapılan tartışmalar içinde Marks’ı yeniden okuyarak son dönem finansal yapıyı ciddi bir soyutlama düzeyine çekmeyi başarmış ve finansallaşma teorisine “commodifiedcapital” kavramını kazandırmıştır.[7] Buradan hareketle bu tezin ana referans noktası Hoca’nın çalışması olacaktır. Hoca, Lapavitsas teorisi hakkında eksikli ve tartışmalı taraflar olduğunu söylese de, ekonomik aktörler arasındaki ilişkilerin finansallaşma süreci ile dönüşümüne dair somut vurgu Lapavitsas’ın analizlerinde dile getirilmiştir. Çalışmanın temel amacını şöyle özetleyebiliriz:

[7] Hoca, op. cit.

Hoca'nın yaptığı soyutlama ile Lapavitsas'ın ortaya koymaya çalıştığı işçi ve işveren arasındaki ilişkinin dönüşümünü, yani somutlamayı, harmanlanmaya çalışılacaktır. Bu birlikte okuma çabası, finansallaşma tanımını, ücretliler, düşük gelir grupları ya da kapsayıcı bir deyişle işçi sınıfı üzerindeki etkiyi dikkate alarak, genişletmeyi hedeflemektedir.

Finans sermaye, özellikle kriz sonrasında, bunun bir büyük ve artan kısmı oluşturarak sanayi sermayesinin finansal piyasalarda dolaşır ve özellikle mali kurumlar aracılığıyla finansman kapitalistler sınıfı tarafından kontrol edilir ve tekeline.

Finansallaşma, kapitalizmin en yüksek aşaması tanımından metalaşmış sermaye akımlarına değin uzanan, bütünüyle dönüşmüş yeni bir birikim modelini ifade etmektedir. Bu tez, son süreçte finansallaşmanın ekonomik aktörler arasındaki ilişkilerde yarattığı dönüşümü üç temel ilişkiye indirgemiştir; (i) işçi ve işveren arasındaki ilişki, (ii) kapitalist ve finansal kurumlar arasındaki ilişki ve son olarak (ii) işçi ve devlet arasında kurulan ilişki.

Türkiye ekonomisinin finansallaşma evrimini ele alan bölümde bankacılık sistemindeki gelişimin yanı sıra Türkiye'nin bağımlılık ilişkilerinin tarihsel kökenlerine vurgu yapılmıştır. Kapitalizm öncesi olarak da adlandırılabilecek, sermaye ilişkilerinin gelişimi öncesi, Türkiye'deki dâhili unsurlar bu ara birikim evresinin taşıyıcısı olmuştur.[8] Gelişmemiş bankacılık sistemi 1930'dan 1970lere kadar tüm aracılık faaliyetlerini yürütmüştür. 1970'lerin başından itibaren dünyadaki kriz gelişmekte olan ülkelerin tümünde neo-liberal dönüşümün tetikleyicisi haline gelmiştir. 24 Ocak Kararları'yla beraber Türkiye'de de bu dönüşümler yaşamıştır. Bir alt başlık olarak 2000'li yıllarda Türkiye Ekonomisindeki yapısal dönüşümler ve ekonomik aktörler değişen roller ele alınmıştır.

[8]Çağlar Keyder, The Definition of a Peripheral Economy: Turkey 1923-1929 (Studies in Modern Capitalism), September 30th 1981

ABSTRACT

The root of capital accumulation model evolved to commodified capital transactions. Moreover, the capitalist system has its own internal dynamics, driven by the motive of profit maximization via financial markets. The dynamics can be described, not merely as channeling of surplus value which is created in real markets, but also as circulation of money as a commodity *in itself* without necessarily corresponding to any value that is existent in real markets[9]. Based upon empirical analysis, Orhangazi[10] argued that there is a contradictory relation between the law of the tendency of the rate of profit to fall and the depth of financial assets in firms' investment decisions.

In addition, the organic composition of capital, i.e. the ratio of constant capital to variable capital, is expected to be lower due to the competitive environment of capitalism[11]. Firms tend to transfer their revenues from real assets to financial assets which has relatively higher profit margin with respect to real assets[12]. Firms try to compensate the profit gap resulting from loos in real investments by creating portfolio of investments. It is a striking fact that the relative magnitude have decreased dramatically with respect to the magnitude of the financials.

This congested story has shifted the focus of the banking policies from real credits to individual consumption credits[13]. Given the strong economic ties of the firms and financial intermediaries; as the household debt burden has increased, there has emerged an *indirect* relation of economic subjugation between the laborers and the employers. Due to the high unrequited debt

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[9]Bülent Hoca, "**A Suggestion for a New Definition of The Concept of Finance Capital Using Marx's Notion of 'Capital as Commodity**", Cambridge Journal of Economics, 36(2), 2012, pg. 419-434.

[10]Özgür Orhangazi, "**Financialization and capital accumulation in the non-financial corporate sector: A theoretical and empirical investigation on the US economy: 1973–2003",** Cambridge Journal of Economics, 32(6), 2008, pg. 863-886.

[11] Marx K., Edited by Frederick Engels and completed by him 11 years after Marx's death; **Capital Volume III: The Process of Capitalist Production as a Whole**, *Marxists.org, 1996.*

[12] N. Stravelakis, "Marx's Theory of Crisis in the Context of Financialisation", Analytical Insights on the Current Crisis, 2012.

[13] Costas Lapavitsas Financialized Capitalism: Crisis And Financial Expropriation. Historical Materialism, 17(2), 2009, pg. 114-148.

volume, the axis of the class antagonism between the labor class and the employers has changed from *direct* work relations to an *indirect* one via financial intermediaries. The main aim of the dissertation is to outline a brief literature survey of the financialization theory. Secondly, the thesis has analyzed the financialization process in Turkey with the structural transformations in the economy. The problem statement of the dissertation tries to examine the process as a whole by means of clarifying the terms and nature of the economic relations between the above mentioned actors. Last but not least, the paper aims at a broader definition of financialization.

Till here, it was the short abstract of the thesis. From now on, the summary will be extended. The rapid increase in economic growth rates, deregulatory economic policies, global extension of capital, and the advance in information technologies have changed, as well as crystallized, the central role of financial actors.However, there is an on-going disagreement in the literature about how to (conceptually) categorize these changes; with respect to which features of capitalism should we ever try to define these transformations; and in virtue of what can we apply any of these definitions.[14]

In this debate, the author would like to highlight some of the theoretical contributions in a developmental order of the capitalist accumulation models. Historical tendencies of the capitalist system, the transformation in the nature of the relation between real and financial markets, and the corresponding responses of the economic actors will be carefully delineated. In her part, the author will try to frame a structural approach which will be used to analyze the financialization process.

This dissertation tries to give a theoretical survey of the theories of financialization. However, the survey is not just a chronological literature review. Critical theories on the historical turning points of accumulation of capital will be outlined as well. Each stage of the financial expansions of the global economy will be added to the new theorization. In this point of

[14] D. M Kotz and T. McDonough, "**Global Neoliberalism and the Contemporary Social Structure of Accumulation**", Contemporary Capitalism and Its Crises: Social Structure of Accumulation Theory for the 21st Century, 2010, pg. 93-120.

view, the historical development of financial capital is going to be identified by the contributions of the scholars.

The discussions on the final stage of capitalism are examined in the thesis; however, the recent statement of Hoca[15] will be the main point of reference on the literature of the financialization theory. Even if, Hoca has some arguments about Lapavitsas; this dissertation follows the escalation of the theory of Lapavitsas in terms of transformed relations of the economic actors. Also, the author would like to put a little contribution to the definition of financialization by considering the wage earners, the low income group or the working class in a wide description. We can summarize the main purpose of this study as follows: the author tries to combine the very abstract theory of financialization by Hoca (2012), with a more concrete one, i.e., theory of Lapavitsas. However, it should be emphasized that this dissertation mainly follows the approach of Lapavitsas.

The financial crises of 1990s raised the attention of scholars in the role of the financial markets within capitalism. Since then, one of the questions that is of interest is whether financial markets, whose role is becoming even more significant, can be considered as the dominant as well as the driving domain of economic activity. If this is so, then a following and more challenging question might be that has capitalism entered to a new stage? If the answers to both of these questions are affirmative, then can we consider financialization as the defining aspect of this new stage of capitalism?

Marxian theories of financialization emphasize the acceleration power of capitalist accumulation model. With the growing extent of speculation in markets, the tendency of

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[15] Bülent Hoca, "**A Suggestion for a New Definition of The Concept of Finance Capital Using Marx's Notion of 'Capital as Commodity**", Cambridge Journal of Economics, 36(2), 2012, pg. 419-434.

capitalism towards bringing crisis about has become ever stronger. As an inherent character of the system, Marx also claimed that monopolization is an inherent tendency of capitalism. This tendency eventually leads to financialization which functions as a framework within which monopolization of capital occurs. The fate of capitalism cannot be separate from the effects of the financialization “which expresses itself in the increasing commodification of capital with the development of Capitalism and is aggravated by crisis”.[16]

In order to avoid ambiguity on the theory of decreasing rate of profits, the concept of surplus value, which is the basic element of the decomposition of profit, should be defined beforehand. A straightforward example form Marx’ writings are given as follows:

Marx assumes firstly that, in a given wage level and working-day hours, the number of laborers (variable capital) is 100. Secondly, it is supposed that, during a week, the wages of the labors are kept at £100. If these laborers have equal productivity levels, as well as surplus-labors, and also work same daily hours, if they work in order to reproduce their way, to produce surplus value; the total product of them will be £200. Thereby, the surplus value will be £100. Therefore, the rate of surplus-value is 100%.

However, it can be seen that the rate of surplus value (s/v) exhibits the different levels of profits while expressing itself. To put it differently, the profit rate (s/C) depends upon the constant capital (c) and the total capital (C).

“The rate of surplus-value is 100%:

If c = 50, and v = 100, then p' = 100/150 = 66⅔%;
c = 100, and v = 100, then p' = 100/200 = 50%;
c = 200, and v = 100, then p' = 100/300 = 33⅓%;
c = 300, and v = 100, then p' = 100/400 = 25%;
c = 400, and v = 100, then p' = 100/500 = 20%.”

[16] Ibid.

It is shown that the rate of surplus-value remains the same while keeping variable cost is constant and the constant capital gradually growing. The change in the organic composition of capital, the changing rate of constant capital leads to progressively decline in general rate of profit "as long as the rate of surplus-value, or the intensity of exploitation of labor by capital, remain the same"[17]

Because of the diminishing rate in profit rates, firms tend to transfer their money from real assets, which has relatively lower profit margin, to financial assets[18]. Despite of the loss of physical investment, firms try to compensate the profit gap through creating a portfolio of investment. It is a crucial fact that the ratio of real market value relatively turned down and did not comparable with the ratio of financial derivatives in total assets." The conclusion of the empirical analysis[19], has supported the claim explains the diverge relations in the investment in finance and real markets. They assert that there have been controversial relations between the law of the tendency of the rate of profit to fall and depth of financial assets in firms' investment decisions.

Following the definition of the law of the centralization of capital; capital accumulation is a slow process that cannot qualify as the driving motive behind the development of the society. However, the centralization of capital, as a law of motion of capital, seems to be the efficacious phenomenon of material life. In Marx' words, this law is explained as follows:

"The world would still be without railways if it had to wait until accumulation had got a few individual capitals far enough to be adequate for the construction of a railway. Centralization, however, accomplished this in the twinkling of an eye, by means of joint-stock

[17] K. Marx, **Capital**: Volume 3, Part III. The Law of the Tendency of the Rate of Profit to Fall Chapter 13, The Law as Such, London, Penguin Books, 1981.

[18]N. Stravelakis, "**Marx's Theory of Crisis in the Context of Financialisation**", Analytical Insights on the Current Crisis", 2012.

[19]Özgür Orhangazi, "**Financialization and capital accumulation in the non-financial corporate sector: A theoretical and empirical investigation on the US economy: 1973–2003",** Cambridge Journal of Economics, 32(6), 2008, pg. 863-886.

companies. (...) Therefore, when we speak of the progress of social accumulation; we tacitly include the effects of centralization”[20].

The congested story which is mentioned as gradual development has shifted the focus of the banking policies from real credits to individual consumption credits[21]. Given the strong economic ties of the firms and financial intermediaries; as the household debt burden has increased, there has emerged an *indirect* relation of economic subjugation between the laborers and the employers. Due to the high unrequited debt volume, the axis of the class antagonism between the labor class and the employers has changed from *direct* work relations to an *indirect* one via financial intermediaries.

The root of capital accumulation model has evolved to commodified capital transactions. Marx had not defined the financialization process as commodification of capital, however he defined commodified money transactions which has priory possessed value only *within* the circulation, by obtaining value *in itself, and independent of its functional value*. Fallowing the light of this definition the financialization has such a same process with commodified money. Furthermore, Hoca enhanced that the dominant form of capital, that is, financial capital has undergone an irreversible transformation. This transformation stands for the ability of capital to exist as a commodity over and above the value of any commodity or any other real product. Moreover, the capitalist system has its own dynamics: maximization of profit via financial markets can be described not only as channeling of surplus value that has been created in the real markets; *but also* as circulation of capital as a commodity in itself without necessarily corresponding to some value created in real markets. In Hoca’s words[22], commodified capital which is identified with the concept of financialization in the literature has defined as follows:

[20] K. Marx, **Capital**: Volume 1, London, Penguin Books, Defining The Concept of Finance Capital 15 of 16, 1976.
[21] Costas Lapavitsas Financialized Capitalism: Crisis And Financial Expropriation. Historical Materialism, 17(2), 2009, pg. 114-148.
[22] Hoca, op. cit. pg. 429

"Finance capital circulates in financial markets and is controlled by the class of finance capitalists mainly through financial institutions, and monopolizes industrial capital by constituting a large and increasing part of it, especially after crises."

Under the light of the theory of Hoca and Lapavitsas, this dissertation has tried to state the financialization process in following manner;

Financialization is a structurally different accumulation model which has evolved from the upgrading capitalistic model through the commodified capital transactions. In the recent version of financialization, there have been primarily transformed relations(i) between laborers and capitalists; (ii) between capitalists and financial intermediaries; and finally (iii) between laborer and the state.

The part devoted to a case study of Turkey tries to highlight the historical evolution of financialization process in Turkish Economy.The internal parameters were the carrier of intermediary regime with the pre-capitalistic position[23]. Due to the premature state of the banking system from 1930's to 1970's, the private entrepreneurs had fulfilled the gap in the supply of intermediary activities. However, beginning from the early 1970's, the effects of global economic crisis had reached to such a degree that supply shortages had become a social phenomenon. Finally, following IMF's economic agenda proposal, which is widely known as the January the 24th Decisions, Turkish economy's structure has been fundamentally shifted towards neo-liberal policies. It is the objective of that part to carry out a case analysis parallel to the theoretical survey.

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[23]Çağlar Keyder**, The Definition of a Peripheral Economy: Turkey 1923-1929** (Studies in Modern Capitalism), September 30th 1981.

INTRODUCTION

This dissertation is motivated by the plurality of accounts of the recent economic crisis within the heterodox economics. In order to underpin our understanding on the dynamics of the crisis, the dissertation offers a survey of theories of financialization, and aims at clarifying the terms of disagreements between these theories. We pose two questions on the literature that we survey: "*what are the main theoretical contributions to the theory of financialization?*" and "*are these explanations offer a sufficient framework to unravel the causes of crisis in capitalist system?*" In the first major part of the thesis, an overview of the literature on theories of financialization will give us the big picture of the problem. In the second major part, the author attempts to expand the findings of the first part on the case study of Turkey. There, we deal with such questions as "*what genre of structural transformations did Turkish Economy have undergone by 1980s*?" and "*how should we conceptualize the financialization process in Turkey from a Marxian point of view?"* The thesis will function as a preliminary step towards the author's doctoral studies.

What is the expected contribution of this study to the literature? It aims to fulfill a gap which can be summarized as follows: several conceptual frameworks of financialization have already been offered in the literature; but they are not sufficiently broad enough to analyze the changes in the relations between economic actors since 2000's. Therefore, in this study I would like to examine this process as a whole; so as to elucidate the relations between these actors; and finally to propose a broader definition of financialization. In precise terms, the main purpose of this study as follows: the author tries to combine the very abstract theory of financialization by Hoca (2012), with a more concrete one, i.e., theory of Lapavitsas.

The recent economic crisis of 2008 needs an elaborate elucidation. Downturns in global stock markets, collapse of leading financial institutions and bail-outs of international banks by governments have led some scholars to consider the 2008 economic crisis as the most severe of the financial crises since the Great Depression of 1929. The global output level and key business activities have been in the downturn from 2008 to 2012 – a period named as the global recession. Although there had been in the past economic crises due to various reasons, such as shortfalls in savings; the recent crisis is distinctive for it has stemmed from the real side of the economy. Lapavitsas called the recent crisis as a structural crisis, but more mature than others with deep and complex effects.

It would be said that the investment banking and the financialized individuals' income as the new phenomena during the time in 2001-2007 triggered excessive securitization. Therefore, the financial crisis began to appear in early 2006, there has been an increasing trend in financial market. Many big commercial banks went to bankruptcy because of their stressful relationship in liquidity and default risks with financial expropriation[24].

Starting from mid-2006, the high default rate caused to dramatic decreases in housing prices. By 2007, the irrevocable default rate revealed the markets' faith. Ironically, mortgage papers were the most profitable ones, which explain why there have been countless amounts of derivatives of these bonds and why they have been spread over the international markets through financial markets and trade. Finally, this process has ended up with sovereign debt crisis in Europe. The slowdown in the US economy triggered the diminishing volume of US imports from trading partners such as Mexico, China and European Union.

Growth projection for the next years has been revised three times by International Monetary Fund (IMF) form4.4% initially, to 2.4% in November 2008. According to the common notion; if the world growth rate is lower than %2.5, it is called global recession. The recent global

[24]Costas Lapavitsas Financialized Capitalism: Crisis And Financial Expropriation. Historical Materialism, 17(2), 2009, pg. 114-148.

crisis have not initiated from the emerging countries, however it erupted the core countries of capitalistic world.[25]

Although, there are controversies regarding *the* causes of the crisis, one commonly shared claim is the monopoly power of financial institutions over the real markets[26]. The fluctuations in mortgage markets since 2006 have smoothed the path towards the credit and the liquidity crisis. Especially, the growth of derivatives of sub-prime mortgage credits has prompted the unbalances[27].

The recent crisis might have showed us that the United States is not the main driving force of the global economy any more. Yet, one should still be skeptical about such half-baked conclusions as that the United States' economic power or dominance has come to an end. Such a conclusion would be too quick for it overlooks the central role of financial markets within the totality of capitalist system. In this respect, it is important to bear in mind that though the US' economy proved to be less "pioneering" than before, still it is possesses some of the most advanced forms of relations of production.

The author would like to begin with an insufficient explanations of, what we reckon as, insufficient explanations that fail to abstract the crisis and its dynamics from its apparent forms. Subsequently, the study highlights some of the critical points in the literature of capital accumulation models and of the concept of financialization.

Commercial banks have given up from their role as a financial intermediary, in favor of confiscating household incomes. The investment banking models and high rates of profit from the individual incomes have created a big financial balloon in USA during the time from 2000 to 2007. The effects of the balloon have spread over to developing countries.

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[25]Erinç Yeldan, "**On the Nature and Causes of the Collapse of the Wealth of Nations, 2007-2008: The End of a Façade Called Globalization**", Working Papers wp197, Political Economy Research Institute, University of Massachusetts at Amherst, 2009.
[26] Lapavitsas, op.cit., 2010, pg. 39
[27]Işıl Tellalbaşı, **Sermaye Birikimi ve Finansallaşma Örneği**, 2012, pg.75.

The crisis can be evaluated from different perspectives; nevertheless, its consequences, such as decrease in consumer wealth, prolonged unemployment, fragility in financial markets, and insecurity in overall economic environment can hardly be denied from any perspective. Among these perspectives, however, some of the heterodox accounts do especially deserve attention for their analysis of the pre-crisis period. On the other hand, in this research, we try to clarify the period after the crisis, especially the economic environment for the economic actors and their relations, by drawing upon this heterodox literature.

Financial globalization is a characteristic of global liberalization that is brought with the advance and increase in the variety of financial instruments. For instance, the new strategies of outsourcing and downsizing of firms in 1980 have relied heavily on the consequences of issuing junk bonds. The free movement of capital and the globalization of financial markets have led the effects of economic crises to reach even to the smallest agencies of the economy, especially those who make up lowest income group in population.

Yeldan asserts that "financialization has structured the logic of short-termism, liquidity, flexibility, and immense mobility over objectives of long term industrialization, sustainable development and poverty alleviation with social welfare driven state."[28] By the fallowing of Yeldan's words; there would be two comprehensive analysis of the current crisis. (i) The anarchic characteristics of capitalist mode of production have been coming after extra ordinary expansion in the economy. In order to overcome the problem the compensation mechanism of capitalism; corrective wars which is termed by Rosa Luxemburg has manipulated the process. (ii) Financial assets have the dominance by recurring the damages of the crisis and accelerating the growing rate of profit.[29]

Though the combination of the all claims in the literature about the causes of the crisis can be drowning up by as fallows;

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[28]Ibid.
[29]Ibid.

- The increase in dollar reserves
- Inflation targeting
- Pressure on the real wages since 1970
- The falling rate of real profits
- The compensation of the loss in real market with finance

These reasons will not be detailed with the concrete cases; however the analysis will particularly focus on them in theoretical level.

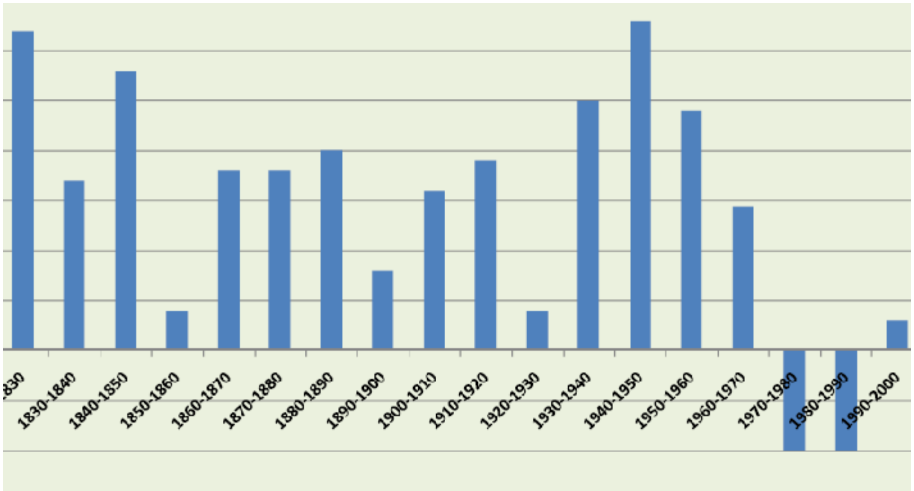

Figure 1: US Weakly Real Wages, Average Growth Rates per Decade, 1820-2000

Source: http://www.infoplease.com/ipa/A0774473.html; U.S. Department of Labor. Web: http://www.dol.gov/esa/whd/flsa/

After 1970's, the growth of real wage rates has turned to negative. Even in the Great Depression the real wage rates were not in the level of neoliberal time.

The rate of financial assets to GDP can explain the depth of financialization which is related with the increasing rate of dollar reserves. It is more explanatory fact that the extraordinary increase in private capital transactions and total capital transactions, foreign direct investments, portfolio investments can explicate the term of depth of financialization. The visibility of depth of financialization came up with the rising trend in dollar reserves on which forced periphery countries by IMF[30]. In order to make the exchange rate stabilized and to compensate the sudden outflows, the substantial amount of money inflows has kept as dollar reserves.

The growth of global financial economy has dynamics coming from instability that has created an unpredictable future for wage earners. In the thesis, the author is going to discuss the deep financialized lives of households. The source of financial profits has diminished and diversified. For instances; wages in the service sector, commissions and the financial transactions within the firms reduced to the banking system into simple activation till households income[31].

In the part of the problem statement and justification of the research, the theoretical contribution of the dissertation is going to be elucidated. Substantially, during the development of the financialization process, the transformation in the role of financial actors in terms of qualifications and numerical quantity can be an aspiration after this dissertation. However, in this thesis the survey of the literature and the historical turning points in Turkey in terms of financialization are analyzed

In the second part, the historical background of the financialization process in the world economy is going to be examined with an ephemeral view. The beginning of financialization, the stagnation in 1970, is going to be criticized. In this part, under which economic conditions the theory of financialization had come up is going to be responded.

In the third part, the literature that has been enriched by the different approaches in economics, such as the Marxists, the Post-Keynesians and the Social Structural Accumulation, and the Regulation School, will be detailed with an analytical interpretation. However, not the all contributions to the literature of financialization theory, the restricted review with the most emphasized theories are going to be surveyed. Incidentally, the question, "has capitalism entered

[30]Lapavitsas, opt. cit., pg. 299- 329; J.P Painceria, "Developing Countries in the Era of Financialization: From Deficit Accumulation to Reserve Accumulation", Historical Materialism, 2008.
[31] Tellalbaşı, op. cit.

a new stage or is the recent transformation a plausible era?" will be answered. However, the author would like to underline the point that the Marxist approach in the theory of financialization is going to be extended, because the methodology of the thesis has Marxian point of view.

In the fourth part, the evaluation of financial system in Turkey is going to be analyzed since the early time of the Republic of Turkey till the recent transformations in the economy. With the five sub-topics, the historical periods will be specified.

In the fifth part, the problem statement and the justification of the research can be identified as the aim of the thesis. Because, the author would like to reduce the relations of the economic actors by following the theory of Lapavitsas.The three economic relations that have persisted (i) between laborers and capitalists; (ii) between capitalists and financial intermediaries; and finally (iii) between laborer and the state are going to be structured in that part.

PART 1

OVERVIEW OF RESEARCH AREA AND LITERATURE

1.1 The Historical Background Of The Theory Of Financialization

During the Cold War period, stability in the global financial system was facilitated within the Bretton Woods framework and which a whole body of institutions such as the World Bank, the International Monetary Fund, the International Bank of Settlements in Basle, GATT (in 1944) (the General Agreement on Tariffs and Trade) and the OECD (Organization for Economic Cooperation and Development).All these international organizations coordinate the economic relations between the advanced capitalist markets and the rest of the non-communist world. "In this sphere, the US was not only dominant, but also the preeminent economy in the sense that its distinctive role as a guarantee of the interests of propertied classes and dominant elites wherever they existed. Indeed, it actively encouraged the formation and empowerment of such elites and classes throughout the world: it became the main protagonist in projecting bourgeois power across the globe".[32]

The centralization of capital and concentration of economic actors on specialized markets made the market open to new structural changes. Especially proliferation of assembly line mass production had significantly improved the productivity rates.[33]The turning point of this process can be traced back to two critical developments: [34]Firstly, the expansion in industrial production and an accompanying diminish in the profit rates inthe central capitalist economies. In the

[32] D. Harvey, op.cit.
[33]I. Tellalbaşı, op. cit.
[34]G. Isaacs. Contemporary Financialization: A Marxian Analysis. Journal of Political Inquiry,2011.

conclusion of the empirical analysis,[35] there have been controversy relations between the law of the tendency of the rate of profit to fall and depth of financial assets in firms' investment decisions. Secondly, the control of finance changed from government regulations to private initiatives. As a result of the control of financial assets by their own institutions with insurance of money and systematic stabilization mechanism of market on prices, speculations and unbalanced economic situations began to occur so frequently[36].

Four decades after the Great Depression, the recovery policies of Keynesian economics have succeeded in settling an economic and social order. The state-led economic growth in USA after World War II can be described as "Keynesian Compromise" that was dominant until 1970's. Given the premature state of financial actors, governments were to take more active role than pre-1970 period. Back then, the function of financial markets can be described as a means for temporary compensation for the firms. The demand from financial side of economy was not as essential as governmental interventions. Using Hilferding's formulation, the trend of merges and acquisitions during the 1960's is the turning point of 20th century because they crystallized the tendency of centralization of capital[37].

We can outline the main aspects of the economic environment in 1970s as follows[38]:

1. Recognition of the labor unions as legally equal, *yet economically powerful* partner of the management process,
2. High purchasing power parity of the working class, acceptance of new social order in Soviet Union,

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[35] Anwar MShaikh,.andE. Ahmet Tonak, Measuring the Wealth of Nations: The Political Economy of National Accounts, Cambridge University Press, 2012.

[36] Tellalbaşı, op. cit.

[37] G. Isaacs. Contemporary Financialization: A Marxian Analysis. Journal of Political Inquiry, 2011.

[38] G. Dumenil, and D. Levy, Capital Resurgent: Roots of the Neoliberal Revolution, Cambridge, MA, Harvard University Press, 2004.

3. "Welfare state" as a new paradigm of governance,
4. High numbers of scientific researches by the collaboration of the military departments and industry.

During 1970's, multinational corporations, changing role of governments and recognition of financial institutions as the preeminent economic actors had gave rise to the neoliberal resurge. The structural crisis in 1970 and the following years brought the recessions in 1974-1975 and 1980-1982, the main problem of the economy was the bottleneck in the profits rates and opportunities, while the capital accumulation was reaching to an historical level[39].

Nevertheless, the major break in the course of events was the end of dollar-gold convertibility in 1971 and the following breakdown of the Bretton Woods System. USA lost the base of national debt due to the increasingly volatile currency. The world economy had to switch to floating exchange rate system which brought increased capital mobility with higher interest rates. As a result of the suitable environment for foreign exchange trading, risk hedging and speculations[40]created the conditions of instability in developing economies.

On the other side, liberal economic policies came with privatizations and cuts in such social expenditures as healthcare, education, housing and pension. With the growing extent of deregulation, depth of capital mobilization has increased and thereby increased the burden of monetary policy on real market. In Epstein's words, "Monetary policy has been determined by four key factors: capital-labor relations; industry-finance relations; the degree of central bank independence; and the position of the economy in the world economy".[41]

Due to the advance in financial instruments, economic growth from 1960s and onwards had created the competition in the global economy which had changed the axis of outsourcing form owners' equities to shareholders'. The competitive business environment had resulted in

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[39]Isaacs. op.cit.
[40]D. McNally, From financial crisis to world-slump: accumulation, financialization, and the global slowdown. *Historical Materialism*, *17*(2), 2009, pg. 35-83.
[41]Epstein, G. Political Economy and Comparative Central Banking. Review of Radical Political Economics, 24(1), 1992, pg.1-30.

subsequent stagnation in real wages. The share of wages and salaries to GDP decreased from 53 present in 1970 to less than 46 present in 2005. When the real wages in the non-agricultural sector in 1970 is compared with the year of 2006, the decrease in the share of expenditure on wages is 1.5 times more than the decrease in aggregate. [42]

The decline in profitability had generated an increase in the rate of exploitation. According to Andrew Kliman, during the surge of neoliberalism, the wage compression had been differentiated in to five predominant phenomena: “geographic relocation of production, expansion of the reserve army, increased labor productivity, increase in work-hours, union-busting and the reduction of social benefits”[43].

Instead of investing in productive assets, Wall Street has sought for financial securities with higher returns. The critical point was that the banking regulations significantly restricted the options of commercial banks, while the savers were able to have financial assets with a higher rate of returns. The deregulated financial market became the preferred investment option[44].

“The greater internationalization of the division of labor, and the dissolution of the vertical structures of many corporations – traditionally with their own internal supply chains and long-term secure job tenure – a rapid outsourcing of key components of their work, and changes in the composition and location of their workforce”[45].

The world economy has been undergoing transformation over the last decades. In the literature of social sciences, the process is being conceptualized under the headings of neo-liberalism and globalization. However, as a relatively new and still controversial

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[42]Reviewed by Mishel L. Declining Value of the Federal Minimum Wage is a Major Factor Driving Inequality, Feb 2013. Retrieved from http://www.epi.org/publication/declining-federal-minimum-wage-inequality/, 28.04.2013

[43]Andrew Kliman, “**The Disintegration of the Marxian School**" Capital and Class, vol. 34, no. 1, 2010, pp. 361-368.

[44] Lazonick and O’Sullivan, “**Maximizing Shareholder Value: a New Ideology for Corporate Governance**”, Economy and Society Volume 29, Number 1, 2000, pg.16-17

[45] G. Isaacs, “**Contemporary Financialization: A Marxian Analysis**”. Journal of Political Inquiry,2011

notion;financialization is also offered as an umbrella term to examine this recent political and economic phenomenon.

The concept of financialization has been subject to debates in literature since the1960's; but as much of the attention in economics has shifted to the dynamics of financial markets by late 1980s and 1990s, the term has been referred more frequently since then. In fact, the scholars who have been studying the theory of financialization often refer to it as the analysis of the evolution of financialization.

It is noteworthy that though financialization is considered as an advance of neoliberalism and globalization, the literature of Financialization Theory highlights various problematic aspects of financialization regarding its consequences on the structure of production process, employment and income distribution.

The literature of financialization theory has been enriched by many scholars. However, the scope of this dissertation is narrowed down to the review of the most prolific contributors. Here, we can summarize their point of interest with the question that "has capitalism entered a new stage or is the recent transformation a plausible era?" In this section, we will try to develop answers to this question from different schools' points of view such as Marxism, Post-Keynesianism, Structural Approach and the Regulation School

1.2 Literature Review

1.2.1. Marxist Approach

"Marx said relatively little about a process that we now call 'financialization' a process we can define simply as 'the increasing role of financial motives, financial markets, financial actors and financial institutions'".[46]

In this dissertation, the author will carry out a literature review starting from the early definition of financialization as "Monopoly Capital" to the more recent definition of "Commodified Capital Markets".[47] After the Great Depression, the role of finance had decreased in relative terms. During that time, the fact that the financial markets were less active created the impression that finance was a passing phenomenon that was fading away. Therefore, in both the earliest concept of Monopoly Capital by Baran & Sweezy and Finance capital as defined by Hilferding, financialization was considered to be a temporary era of capitalism.

In addition to Baran, Sweezy, and Hilferding, there were other Marxist scholars involved with the Journal of International Socialism to which Chris Harman, Mike Kidron, Tony Cliff, and Alex Callinicos contributed. They established their interpretation of the term based on Marx's law-like description of capitalist systems: "The slowdown in the organic composition of the capital had led to decrease in the profit rate." However, rather than a broad analysis, they focused on the compensation effects of military expenditure.[48]

1.2.1.1 The Earliest Theory of Financialization; Monthly Review

We will carry out a comparative analysis of the leading approaches from a historical perspective. In early discussions, financialization is conceptualized as a new accumulation model.

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[46] G.A. Epstein, **Financialization and the World Economy**, Edward Elgar Publishing, 2005.

[47] Bülent Hoca, **A Suggestion for a New Definition of The Concept of Finance Capital Using Marx's Notion of 'Capital as Commodity',** Cambridge Journal of Economics, 36(2), 2012, pg. 419-434.

[48] Hayri Kozanoğlu, **Uç(ur)amayanBalon: Finans**, AyrıntıYayınları, 2011, pg. 26-27.

The author would now like to emphasize the first theoretical base of the dissertation with the assumptions on the dynamics of the capitalist system. The dynamic should be evaluated as part of a progressive process. Progress means that each stage more complex relationships emerged within the system. This position has been entertained by the theories of Magdoff and Sweezy.

The return of this old argument can be ascribed to the success of the Monthly Review's editors, John Bellamy Foster, and Fred Magdoff. They emphasized the fragile nature of the relationship between finance and actual production. Their effortscalled attention to the underlying contradictions of capitalism.

As John Maynard Keynes argued, mainstream approaches have focused on financial weaknesses as deviations from capitalism; "Speculators may do no harm as bubbles on a steady stream of enterprise. Nevertheless, the position is serious when enterprise becomes the bubble on a whirlpool of speculation".[49] Later, during the 1950s–1970s, Foster, Magdoff, and Paul Baran introduced a new concept known as*monopoly capital*. The primary emphasis of the monopoly capital was on the stagnation of production and a corresponding growth in financial bubbles.[50]The primary conceptual analysis was proposed by Hansen (1955) in the "stagnation" thesis. Thereafter, through the contribution of Baran& Sweezy in 1966, the stagnation theory was linked with finance by "Monopoly Capital".[51]

Since 1969, Monthly Review's editorial has presented a comprehensive explanation of the financialization theory. Editors Paul Sweezy and Harry Magdoff published the book "Stagnation and Financial Explosion". They argued that the USA has carried over the slowdown in the

[49] John Maynard Keynes, **The General Theory of Employment, Interest and Money**, Chapter 12; the State of Long-Term Expectation, Part VI, Macmillan Cambridge University Press, 1936.
[50]Reviewed by Bond, P.*The great financial crisis: A handbook for the downturn*, 2009. Retrieved from http://links.org.au/node/985, 26.03.2013
[51] Işıl Tellalbaşı, **Sermaye Birikimi ve Finansallaşma Örneği**, 2012; H. Magdoff, "**Monopoly Capital"**, Economic Development and Cultural Change, C. 16, S.1, October 1967.

economy by shifting the debt burden from governments to firms and households.[52]Thus, the contribution of Magdoff and Sweezy underlined a new role for financialization in capitalism, which later had deeper implications for Marxist methodology.[53] The theoretical basis of Magdoff and Sweezy was a historical perspective of the capitalist system and its tendencies. The next important interpretation of Magdoff (1967) came from Sweezy.

Sweezy,[54] from the beginning of the Recession in 1974–1975, identified three significant stages of slowdown during economic growth,[55] as follows;

1. The slowdown in growth trends worldwide;
2. The proliferation of monopolistic and oligopolistic multinational corporations;
3. The financialization of capital accumulation as a new model.

Similarly to the period classification by Sweezy, when the economic stagnation recurred in the 1970s, financialization was defined as an "emergency exit" for bottlenecks in the economy.[56]

The high extension debt of national economies and the overreach of the volume in the banking system include compensation of the loss in profits. Foster highlighted the existence of the laws of motion of the capitalist system. In Sweezy's words, by the end of the 1980s, financialization stretched to an independent level rather than a temporary era and control over real production.[57]Thus, financial actors began to have a significant impact in real markets.

In the article "The Resurgence of Financial Control: Fact or Fancy?" Sweezy described this problemas "fancy". By considering the inter-capitalist power relationships during the golden

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[52]Hayri Kozanoğlu, **Uç(ur)amayanBalon: Finans**, AyrıntıYayınları, 2011, p.48); Pınar Bedirhanoğlu, KüreselKapitalistKrizinYenidenDüşündürdükleri: Finansallşama ve Devlet, PraksisDergisi, Vol 22, Spring 2010.
[53]Hoca, op.cit. ; Pollin R. **"Financial Structures and Egalitarian Economic Policy"** New Left Review, 214, November/December, 1995, pg. 26-61.
[54] P. M. Sweezy, "**More (or less) on Globalization",** Monthly Review, 1-4, New-York, 1997, 49.
[55]J. B Foster, "The Financialization of Capitalism" Monthly Review, 58(11), 2007, pg. 1-14.
[56] Ibid, pg. 2-4.
[57] Foster, op. cit. ;P. M. Sweezy, **"Economic Reminiscences"**, Monthly Review, New York, 1995.

years of the early 1970s, he claimed that bankers were not in control,they were mainly facilitators.[58]

In contrast, in *The Great Financial Crisis: Causes and Consequences*, John Simoulidis[59] defined Foster and Magdoff's contribution as pioneering Marxist theorization of money and finance – particularly their contribution to the theory of stagnation associated with Keynes, Kalecki, Hansen, Robinson, and Minsky. Simoulidis asserts that the monopoly capital had similar arguments with the theory of 'financial instability hypotheses by Minsky.[60]

1.2.1.2 The Theory of Finance capital

One of the most influential contributions is that of Austrian Marxist Rudolf Hilferding, who attempted to underline the dominance of finance with the direction of global capital movements and the superior effects of investment banking on the real market. In his theory, the consequences of property relationships can be differentiated into two types; bank-based and market-based finance.[61] Accordingly, the concept of "finance capital" was defined in terms of bank-based finance. In the book of Finance Capital, published in 1910, Hilferding highlighted the tendency of merging between banking capital and other capitalists:[62]

"If you control the six Berlin banks, you control all of German industry."

However, some scholars have drawn attention to certain flaws in Hilferding's theory. The critiques can be explained on the premise of his theory that developed economies were distant to financialization reality. The German economy has been described as the future of monopoly capitalism in which industry is highly dependent on banks. The USA and the UK are described as countries controlled by market-based finance, and these countries are the most powerful of global

[58] *http://links.org.au/node/985.*
[59] J. Simoulidis, John Bellamy Foster and Fred Magdoff, "**The Great Financial Crisis: Causes and Consequences**". Socialist Studies/ Études Socialistes, 6(1), 2010.
[60] Kozanoğlu, op.cit., pg. 33.
[61] R. Hilferding, **"Finance Capital: A Study of the Latest Phase of Capitalist Development"**, London, Boston and Henley, Routledge and Kegan Paul, 1981.

[62] *http://links.org.au/node/985*

economies.[63] Furthermore, Krippner emphasized the fact that the profit of financial corporations had grown more than non-financial corporations.[64] Empirical studies[65] have supported the opposite of Hilferding's claim that large corporations will finance their investments relying heavily on banks. It can be seen from the figure 2 that the tendencies of profits are nonparallel in the non-financial and financial sectors.

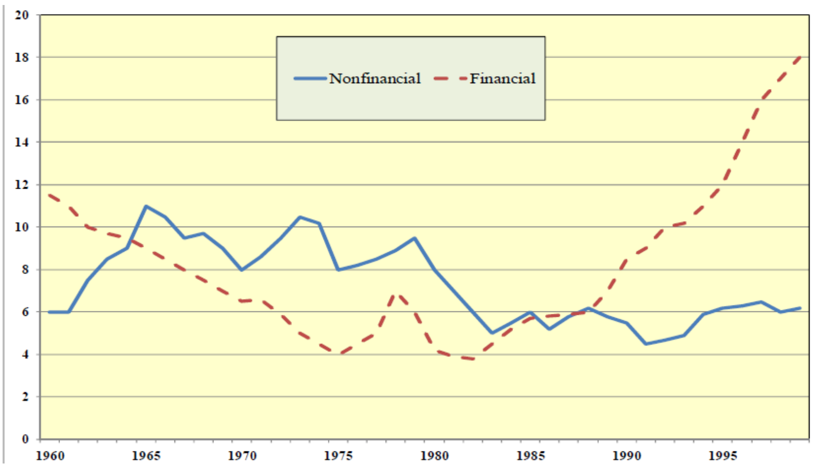
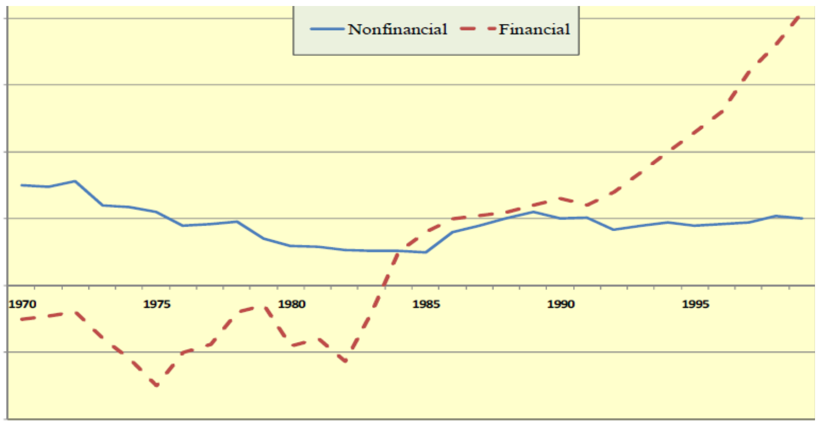


Figure 2: US: Profit Rate of Nonfinancial and Financial Corporations (%)



[63] Costas Lapavitsas, "**Introduction to Hilferding's 'Finance Capital**", Historical Materialism Annual Conference 2006, http://mercury.soas.ac.uk/hm/pdf/2006confpapers/papers/ Lapavitsas.pdf [date last accessed 10 January 2012]
[64] G. R. Krippner, "**The Financialization of the American Economy**", Socio-Economic Review, 3(2), 2005, pg. 173-208.
[65] Özgür Orhangazi, "**Financialization and capital accumulation in the non-financial corporate sector: A theoretical and empirical investigation on the US economy: 1973–2003**", Cambridge Journal of Economics, 32(6), 2008, pg. 863-886.

Figure 3: France: Profit Rate of Non-financial and Financial Corporations (%)

Pinto points to the fact that the dominance of finance exists in all countries integrated into the global economy. This argument would be supported by the words of; Hilferding states: 'An ever-increasing part of the capital of the industry does not belong to industrialists who use it.'[66]

1.2.1.3 Monopoly Finance Capital

A commonly acknowledged conceptualization is Foster's monopoly-finance capital, which defines a new accumulation model: monopoly capitalism. Foster's conceptualization differs from Hilferding's in that Foster specified the understanding of the inverted relations between the financial and the real market that identifies the new stage of capitalism. In this line of thought, even if the financial crisis of 2001 can plausibly be considered as "this time is different", problems arising from excessive accumulation have been recurring since the early 1970s. Nevertheless, common to these crises, financial instruments have served as a means for post-crisis compensation.[67] This recent crisis can be viewed from this perspective and attributed to the relationships between the real and financial markets and the contradictions arising from the relationship between them.[68]

The process, which was examined by Foster, can be summarized as follows; the main reason for the situation is that capitalists seek to invest in order to improve surplus value, thus driving greater accumulation. However, surplus value has an upper limit. Moreover, capitalists are attracted to invest in more capital goods and decrease prices in order to reach more consumers through competition in technology. Therefore, capitalists avoid overproduction and attempt to limit the capacity of industrial production. However, this problem came with the compensation of

[66] N. P. A. Pinto, "**Finance Capital Revisited**", pp. 216–32; R. Bellofiore, **Marxian Economics: A Reappraisal, Essays,** Volume III of Capital, vol. I, London, Macmillan Press. (1998).
[67] J. B. Foster, "**The Financialization of Capitalism**", Monthly Review, 58(11), 2007, pg. 1-14.
[68] Costas Lapavitsas, **"Financialization Embroils Developing Countries"**, Papeles de Europa (19), 2009, pg. 108-139.

the loss, including the transfer of investments from the real sector to the financial sector and financing the expenditure of investment by securitization.[69]

Because of the high level of demand for financial products in the 1970s, the first attempt to overcome stagnation came with expansion of the money supply. The reaction of the market through financial intermediaries and financial institutions generated new financial derivatives whichwere highly speculative.It is therefore not surprising that the Keynesian Economist James Tobin suggested placing a tax on international foreign exchange transactions.

The most significant emphasis in Foster's analysis of the 1970s was on "the stagnation and enormous financial speculation, which emerged as symbiotic aspects of the same deep-seated, irreversible economic impasse". The thesis can be supported by the following statements: capitalists became more dependent on finance to increase money capital; this enlargement cannot be considered as unrelated to the base of the production sector. Because of this, the situation is highly subject to speculation, and therefore has the potential to create financially fragile economies. In summary, financialization cannot help overcome the problem of stagnation in economies. Foster argued that through changes in the dynamics of saving and growth, financialization generated a new accumulation model, which has become the new stage for capitalism.

The conflict over financialization as a new stage of capitalism or as an accumulation model was clarified by Foster. Even if the new accumulation model werea weak, temporary attempt of capitalist theorization, it can be argued that the inverted relationships between economic actors as specified by Foster have still controlled the global economy. However, these inverted

[69]Orhangazi, op. cit.

relationships have been reduced to relationships between the real and the financial markets. Fosterhighlights a misleading impression that the transformed relationships between households and the real market or between the working class and the capitalist have been ignored. In Lapavitsas, this lacunain the synchronized process of the structural reforms in economic institutions is highlighted. Rather than being temporary,financialization created a structural shift in this momentum of capitalism. However, it would be impossible to discuss the broad definition of financialization if Hilferding's and Foster's theories did not exist.

1.2.1.4 The Dynamism of the New Accumulation Model

In terms of the tendencies of investors who can manage the mobility of money transactions, financialization has changed the relationships and dependency linkages between developed countries and developing countries. Excessive financial investments in developing countries pushed these developing countries to have more foreign exchange reserves than previously, the greatest volume, of course, being in the American dollar. Meanwhile, the US has financed its owncurrent account deficit. Moreover, the dominance of the dollar in international exchange markets has created a situation in which poor countries lend to developed countries and finance international corporations.[70]

In the previous sections of this thesis, the main focus was on defining features of the current stage of finance. In Sweezy and Magdoff (1969), Hilferding (1981), and Foster (2007), the dominance of financial activities over the economy has been highlighted. Furthermore, it should be taken into consideration that these theories matured under the conditions of stagnation. In this section, the dominance of financial markets on the real economy will be examined with the premise that scholars, such as Arrighi (2003), Harvey (2007), and Lapavitsas (2008) have

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[70]David Harvey, **The New Imperialism**, OUP Oxford, 2005.

made critical analyses regarding the financial era; they have searched for the fundamental core of financialization in the accumulation process and underlined the over-accumulation problems of the capitalist system.

Giovanni Arrighi outlined the role of labor unrest in social and economic systems. Moreover, the roles under which the conditions of liberalization and corporate financialization have created a new order. According to Arrighi, all economic cycles begin with a material expansion phase and progress to a financial expansion phase.[71] In the first phase, economic activities depend on production and trade; therefore, the profit rates were high. However, with international competition, investment of the physical side becomes riskier.Liquidity preference is transferred to financial investments. Arrighi viewed the coming crisis as a phase of the terminal crisis. According tothe profits is not the exclusive goal, … shareholders will exclusively be interested in profits".His assertion, the USA could identify the signal crisis in 1970.However, they could not determine if it werea terminal crisis. "In The Long Twentieth Century, it is called the onset of financialization the signal crisis of a regime of accumulation, and pointed out that over time--usually around half a century--the terminal crisis would follow."[72]

According to Epstein[73]"financialization means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of domestic and international economies". Moreover, Yeldan argues that financialization is a phenomenon describing the increasing motivationfor financial activities worldwide.

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[71] Kozanoğlu, op. cit.; G Arrighi, "**The Social and Political Economy of Global Turbulence"**, New Left Review, 20(2), 2003, pg. 5-71.

[72]Arrighi G. Interview with David Harvey.The winding paths of capital.Retrieved from http://temi.repubblica.it/micromega-online/the-winding-paths-of-capital,April 2009.

73Erinç Yeldan, "**On the Nature and Causes of the Collapse of the Wealth of Nations, 2007-2008: The End of a Façade Called Globalization**", Working Papers wp197, Political Economy Research Institute, University of Massachusetts at Amherst, 2009; G. A. Epstein, **Financialization and the World Economy**, Edward Elgar Publishing, 2005.

Lapavitsas uses the term "financial expropriation" to assert that the surplus value is expropriated during the production process.However, due to the growth of the financial economy, expropriation has beentransformed into money circulation in terms of the workers' income.[74] The author would like to highlight that the theory of Lapavitsas is associated withthe "financial expropriation" of the wage earners becoming central to the economic process.

According to Lapavitsas, the financialization of the personal income of the working class and others is a new source in the banking system. In past decades, the gradual withdrawal of public provision in health, education, and housing has affected the path of economic development.

Stagnation of real wages and the reliance on new private provision have raised the worker indebtedness to banks and other financial institutions. Moreover, pubic pensions have been under threat from new legislation which has reflected neo-liberal policies. Legal reforms in developing countries in the area of taxation lead to vulnerability of workers' savings to the activities of the financial sector.

"The extraction of financial profit directly out of wages and salaries, including from the poorest layers of workers, has elsewhere been called financial expropriation".[75]

According to Lapavitsas, the defining feature of financialization is not the dominance of the banking system on industry and commercial capital; it is mostly the autonomy of the financial sector within the global economy. Furthermore, Lapavitsas deeply analyzed the exploitation role of financial markets and the transformed role of banking system, which are the dealer institutions between the consumer of debt papers and the financialized firms. However, Hoca (2012)

[74]Kozanoğlu,op. cit. pg. ; Ali Rıza Güngen, "**Finansallşama: SorunlubirKavram ve VerimliBirAraştırmaGündemi**", Praksis, Spring 2010, pg. 91 .
[75]Lapavitsas, op.cit. , 2009

criticized Lapavitsas, stating that the relationship between production and finance tends to be historically specific and subject to institutional and political factors that shape the financial system.

Finally, the fundamental theoretical basis of the dissertation is by Hoca (2012). The most recent accepted definition is: "Finance capital is commodified capital, which circulates in financial markets and is by the class of finance capitalists mainly through financial institutions, and monopolizes industrial capital by constituting a large and increasing part of it, especially after crises."[76]

With the supporting words of Lapavitsas, during the process of reproduction in capitalist accumulation, transformation of stationary money does not happen to retained profit, but to interest. This supports the thesis of Hoca (2012). In the Marxist method, capitalism has its own tendencies, and along with these tendencies, the social classes and class relationships, governed by the institutions of capitalism, have been constituted by the form of capital. In other words, the process goes from the abstract to the concrete. Following a method similar to the Marxist Methodology, Hoca (2012) points out that:

(i) The inherent tendency of capitalism to both monopolize and financialise, which expresses itself in the increasing commodification of capital with the development of capitalism through a series of crises.

(ii) The coalescence of financial and industrial capital is the consequence of the transformation of capital at the turn of the nineteenth century, when capital became largely commodified.

(iii) The class relations based on the commodified capital has changed over time. The social relation of production has externalized into the sphere of real circulation of capital. In addition,

[76]Hoca, op. cit.

the surplus value has beencentralized in the hands of finance capitalists. Therefore, we have seen the generation of a new commander class who dominates social capital and institutions; these are the finance capitalists.

Marx indicated the one of the indispensable tendency of capitalism; that is, monopolization, which is the inherent tendency of capitalism. The monopolization and financialization should be analyzed as a harmonized motion. “The tendency [which] cannot take place without financialization has been much overlooked”.[77] At the same time, as Pinto also points out,[78] capitalist property involves the transformation of productive assets into negotiable securities: ‘Ownership now exists in the form of shares’.[79]

“To understand finance capital, the first question that needs to be asked is what happened to capital beyond the concrete institutional change at the turn of the nineteenth century. Lenin’s answer is that ‘The beginning of the twentieth century marks the turning point from the old capitalism to the new, from the domination of capital in general to the domination of finance capital.’”[80]

The financial system ‘forms the principal basis for the gradual transformation of capitalist enterprises into capitalist joint-stock companies’; the stock market ‘is a market for fictitious capital. It is a market for the circulation of property rights as such’,[81] and in the stock exchange ‘capitalist property has lost any direct connection with use value’.[82]

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[77] Karl Marx, **Capital**: Volume 3, London, Penguin Books, 1981, pg. 571.
[78] N. P. A. Pinto, “**Finance Capital Revisited”**, pp. 216–32; R. Bellofiore, **Marxian Economics: A Reappraisal, Essays,** Volume III of Capital, vol. I, London, Macmillan Press, 1998.
[79]Ibid.
[80]Hoca, op. cit.; V. I. Lenin, **Imperialism: The Highest Stage of Capitalism**, New York, International Publishers, 1939, pg. 46
[81]Harvey, op. cit., pg. 276
[82] Hilferding, op. cit., p. 142

In summary, with the evocation of Hoca, Marxist literature had the answer to problem of defining the financialization in theoretical level. However, the abstraction level of the theories could not cover the concrete problems of the recent crisis. Scholars in the literature of the theory of financialization have been constrained by the conditions of their time.

1.2.2 Post-Keynesian Approaches

Kalecki (1942), Minsky (1992), and Palley (2009) represent the Post-Keynesian approach that has another imperative doctrinal explanation of financialization. They defend the proposition that distortion in wages and income distributions have led the real economy towards the recreation of the problem of aggregate demand.[83]

The definition of financialization in the Post-Keynesian view includesa combination of new Marxists and post-Keynesian explanationsregarding inequality in income and lack of demand[84].Therefore, as Palley hasstated, there are many similarities between structural Keynesians and New Marxist, like Social Structural Accumulation (SSA) approach. “The neoliberal growth model inaugurated an era of wage stagnation and widened income inequality. In place of wage growth to spur demand growth, it relied on borrowing and asset price inflation”[85].

The most popular Post-Keynesian economist, Kalecki has contributed an essential harmonization of Keynesianism and New Marxist approaches. Structural Keynesianism emphasizes the critical role of finance in sustaining the neo-liberal economic policies through the borrowing mechanism.[86] It is a fact that, even if the popularity of Minsky has improved after the

[83]Kozanoğlu, op. cit., pg.33; Thomas Palley, “**The Limits of Minsky’s Hypothesis**”, Monthly Review, April, 2010.
[84]Ibid, p. 31.
[85]Thomas I. Palley, “**A Theory of Minsky Super-Cycles and Financial Crises**” Contributions to Political Economy 30, 31-46, 2011, pg.19.
[86]Ibid, pg. 22.

current crisis, it should be emphasized that these Marxist financialization scholars had predefined the new theoretical attempts of the post-Keynesians. The “hypothesis of financial instability” of Minsky is based on the speculative finance of expectations. The hypothesis of financial instability can be evaluated as a theoretical extension, which examines the characterization of the financialized economy with the dominance of capital assets and a sophisticated financial system. In the words of Minsky, financial instability results from the dynamic of the system itself. Minsky’s statement does not significantly differ from Marxist claims.

“The financial instability hypothesis is a model of a capitalist economy which does not rely on the exogenous shocks to generate business cycles of varying severity”.[87] However, Minsky used the terms of business cycle theory, not the tendency of capitalism or the laws of motion of capitalism. Minsky claims that the history of the business cycle results from two facts. “… (i) the internal dynamics of capitalist economies, and (ii) the system of interventions and regulations that are used to keep the economy operating within reasonable bounds”.[88] Thomas Palley argues that the exclusion of the theory of Minsky is based onthe continuity of neoliberal economic policies. By that statement, it can be said that Post- Keynesianism has the same generic properties as the Marxist approach, which underlines the problem of the deterioration of income distribution and the wage squeeze which the Keynesian aggregate demand problem has pointed to.

Structural Keynesianism follows the original Keynesianism. “James Tobin and Paul Davidson include class conflict effects”.[89] The differences can be divided into two statements. First, the identification of functional importance of financial transformation and the deregulating laws in the growth of demand in fuelling the crisis. Second, the trade deficit has been identified as an additional causeof the crisis. Furthermore, even if the Keynesians’ focus is on financial instability and especially on the problems of demand shortage, their analysis conflates the distortion of the income distributions and the effects of class conflicts on aggregate demand.

[87]Kozanoğlu, op. cit., pg.33
[88]Ibid.
[89] Palley, op. cit., pg11

From the following words of Palley, it can be summarized that the cause of the crisis lies in neoliberal policies, not the system as whole nor the rationality of the tendency of capitalism. “Financial sector reform without reform of the neoliberal growth model will leave the economy stuck in an era of stagnation”[90] The contribution of structural Keynesians can be summarized as follows; “The neoliberal growth model inaugurated an era of wage stagnation and widened income inequality. In place of wage growth to spur demand growth, it relied on borrowing and asset price inflation”.[91] Although the post-Keynesians believe in the power of regulation on the financial markets, these interventions can neither deeply analyze the real causes of the crisis nor reach the utopia of full employment.[92]

The most important contribution of Kalecki (1942) is his theory of profit, which claims that the decisions of capitalists about investment and consumption in the previous period produce profits. “…[T]he capitalists may decide to consume and to invest more in a certain short period than in the preceding period, but they cannot decide to earn more”.[93]The equation was as follows:

“Gross profits = Gross private investment + Capitalists' consumption”

Contemporary scholars in the Berlin School of Economics have related the theory of profit to the notion of profit rates without real investment. They have arguedthe process since 1980 with the characteristic conditions of the last three decades, such as weak investment, higher levels of consumption than income, and high budget deficits. Furthermore, private investment has decreased and the contribution of exports has slumped.[94] Özel[95]defends Kaleckian Theory in the framework of classical-Marxist analysis, and divides it into three spheres, i.e.

[90]Thomas Palley, “**The Limits of Minsky’s Hypothesis**”, Monthly Review, April, 2010.
[91] Ibid, p.19
[92]Kozanoğlu, op. cit., pg.34
[93]Michal Kalecki, “**A Theory of Profits**”, The Economic Journal, 52(206/207), pg. 258-267,1942, pg.25.
[94]Ibid, p. 34.
[95] H. Özel, “**Kalecki ve Klasik-MarksistİktisadiAnaliz**”, HacettepeÜniversitesiİktisadi ve İdariBilimlerFakültesiDergisi, 22(1),2004,pg. 1-22.

i. “the principle of effective demand”
ii. "degree of monopoly" referring to the Keynesian theory of imperfect competition,
iii. The short-term effects in terms of the fluctuations in the income distribution and investment decisions.

In one of the most cited articles of the Berlin School of Economics and Law,[96] the Kaleckian distribution and growth model with workers was redefined by the mathematical model for the short and long run. The remarkable result is the identification of the market economy with the term of “the paradox of debt”.The model concluded that if the debt-capital ratio of workers exceeds the limit of stability, it will structurally affect the equilibrium of the market for goods. The increase in the indebtedness of workers leads to theincreasing of the level of debt to income in the whole economy.[97]

According to Stockhammer,following the theory of Kalecki, there are four statements in the literature that explain the distortion in income distribution:

i. Increase in rentiers’ incomes such as incomes from interest rates and dividends,
ii. Upgrading speculative profits of the financial sector,
iii. Upgrading assets which haveballooned since 2002,
iv. The high economic integration of the financial sector.

These statements can explain the transformed behaviors of actors in the economy. Along with the theory of Stockhammer, the epoch of financialization has shifted the role of the financial sector.

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[96] E. Hein, “**Finance-dominated Capitalism and Redistribution of Income: A Kaleckian Perspective”**, Levy Economics Institute, Working Paper, (746), 2013.
[97] Ibid, pg. 28

The highlighted changes in the behaviors of the economic actor can be broken down into three sections;[98]

• Changes in household behavior (known as household debt);

• Changes in the behavior of non-financial businesses (value orientation, many types of financial activities);

• Changes in the financial sector (shadow banking, the shift from business credit to household credit, and the increase in the number of investment banks).

Another of Stockhammer's significant contributions is the empirical evidence of the hypothesis that financialization has led to a slowdown in accumulation. The empirical analysis was performed comprising the business sectors in the USA, the UK, Germany, and France. "By the consequences of the model, he has developed the theory through the consideration of the earlier Structural Keynesians".[99] It is that the "shareholder revolution" has triggered the dominance of corporate control over the market. The shareholder value has redefined the management priorities and caused the reorientation of immature business environments toward global financial markets with better opportunities for finding external funds. Furthermore, due to growing shareholder value or the responsibility of paying dividends, there has been a reduction in growth rates that firms findundesirable. "Even if growth is an intrinsic goal and maximizing profits is not the exclusive goal…shareholders will exclusively be interested in profits".[100] Stockhammer supports his arguments with the literature of business history (Chandler), post-Keynesians (Galbraith, Eichner), recent management literature (Baker and Smith),there has been a trade-off between growth and profits.[101]

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[98] E. Stockhammer, "**Financialization and the Global Economy**". Political Economy Research Institute Working Paper,(242), 2010.

[99], G. Baker and G. Smith, **the New Finance capitalists: Kohlberg Kravis Roberts and the Creation of Corporate Value**, New York, Cambridge University Press, 1998.

[100] E. Stockhammer, "**Financialization and the Slowdown of Accumulation**", Cambridge Journal of Economics, 28(5), 719-741, 2004.

[101] Ibid.

There are differences between the Post-Keynesians, Social Structural Accumulation and Regulation Schools in the way that the theory of financializationcan is analyzed. The Regulation School, which originated in France, differs from the Social Structural Accumulation, (SSA) which has a place between Marxism and Keynesianism in the theory of financialization. The new versions of SSA have been reshaped since the beginning of the 1980s. They especially assert that the terms such as neoliberalism, globalization and financializationneeds to be rethought to reflect the transformed dependency of institutions.

The regulation theory has argued the historical evolution of political economy through two major concepts: *regimes of accumulation*; and *modes of regulation*. The *regimes of accumulation* explain the processes of consumption, production and income distribution. Its scholars have argued the methodology of expanding capital to stabilize the economy. The Regulation School is influenced by structural Marxian theory and institutionalism. However, they have specifically focused on the policies that regularize the system of capital accumulation, known as "regulation theory". In the article by David M. Kotz and Terrence McDonough,[102] well-known tothe followers of the Regulation School, the authors explain the channels of the distortion in income distribution. These channels have been comprehensively re-analyzed under the contradictions of the contemporary situation.

First, the problem of inadequate aggregate demand arises from the imbalance between the upward trend of profit and stagnating wages. The problem may cause the growth in government spending to be curtailed and also at the macrolevel expansionary policies to be renounced.

[102] D. M., Kotz and T. McDonough, "**Global Neoliberalism and the Contemporary Social Structure of Accumulation**", Contemporary capitalism and its crises: Social Structure of Accumulation Theory for the 21st Century, pg. 93-120, 2010.

Second, because of the short-run perspective of finance and deregulation by the emphasis on laissez-faire competition, the speculative character of the financial market has the tendency to become more fragile over time.

Third, instead of limited productive investment activities, the high profit rates of paper assets provide wealthier households with larger income. Therefore, given the preferable investment options, the collapse of a financial bubble was clear.

Fourth, the dialectical center-periphery relationship can be maintained in terms of the financial integration of the developing countries with core countries. An interrelated and complex relationship has led to the rapid spread of globalization.

PART 2

THE EVOLUTION OF THE FINANCIAL SYSTEM IN TURKEY

2.1 Turkey as a Periphery Country

The development of the financial system in Turkey will be discussed briefly. The role of foreign direct investment is mostly not considered in this study, or there is no contradictory comparison between the real and the financial investment volumes. In this part, the situation of Turkey after integration into the global market will be analyzed. However, it should be remembered that the theory of Peripheralization has an extensive literature; hence, the concept of the periphery-center will also be examined.

Capital in Turkey has exhibited the form of the peripheral accumulation model. The dependency theory can be defined as follows: “the ‘core’ countries enrich themselves from the resources of the ‘periphery’ of poor and underdeveloped countries. This wealth transfer reinforces a central contention of dependency theory that poor states are impoverished and rich countries are enriched. Along the way, poor countries are integrated into the ‘world system’.”In the words of Eres;[103]

[103]Benan Eres, “Capital Accumulation and the Development of a Financial System: The Turkish Example.” Review of Radical Political Economics (37.3), pg. 320-328, 2005.

“Peripheralization is the general term for the transformation of non-capitalist economies into historically specific capitalist forms in the course of articulation to the capitalist world economy that had already been developed earlier and imposed upon them”.

In the history of developing economies, many different versions of Peripheralization can be examined related with their dependency elements. For Turkey, Peripheralization is a debatable topic on which Turkish scholars, such as Keyder (1981), Tezel (2002), and Ramazanoglu (1985) have different perspectives.

The evaluation of financialization will start from the 1980s when policies of privatization were dominant in the Turkish Economy. Moreover, rather than the timeline of the transformation in the financial sector, the theorization of the period from the abstract to the concrete has been done.

In order to understand the historical basis of economic dependency in Turkey, it is necessary to start with a brief analysis of the new Republic of Turkey in 1923. Therefore, the transition time from the Ottoman Empire to the Republic of Turkey should be examined. The economy of the Ottoman Empire is usually described as an intermediary regime with a pre-capitalist position in international trade and a predominant agricultural sector.[104] The new republic had the significant economic aim of industrialization or an upgradeable pattern and supported private initiatives. However, the Republic of Turkey could not rescue itself from the path of dependency on commercial activities. By the predominance of agricultural value added, an attempt was made to create a liberal bourgeoisie to shape the industry after the protectionist era.

The analysis of Eres comprises the economy-politics of development in Turkey. Particularly, the problematic of his study underlines the continuity and the separation of the development process of Turkey. In the part of Paradoxes of Capital Accumulation in the Periphery, he contemplates the history of Turkey in a perspective of class struggles and the

[104] Keyder, op. cit.

contradictions of interest groups. Eres stated; "Each and every turning point in the history of the Turkish financial system appears to be the scene of the confrontation between the civil-military bureaucracy and private capital".[105] His theory was inspired by Boratav[106] and tried to analyze the essential steps of liberalization in Turkey. In order to understand the theoretical escalation, the key elements of the analysis should be considered; the Turkish state had an overemphasized degree of autonomy and the civil-military bureaucracy as a class. Boratav (1993) explains the fact that the conflicts of interest between the classes became stressful during the crisis of capitalism. However, relatively stable economic data showed different political contradictions and tendencies as well.

Eres stressed: "Soon after each military interruption the political and economic agenda of the pro-industrialist bureaucracy was either substantially cancelled or watered down within the liberal bourgeois democracy and priority given to the private sector". The rational transformation in the regimes of capital accumulation has been presented with a veil which reveals the natural tendencies as political conflicts. However, behind the political crisis, liberal bourgeois values and institutionstake control of the capital.

According to Eres, there are two interrelated characteristics of capitalism in Turkey. First, Turkey is a peripheral country within the division of labor of the world economy. Second, the principal basis of capitalism in Turkey was commercial activity. The commercial feature of the economy is significant because merchants' capital accumulation does not progress by creating surplus value, but depends instead on circulation and reproduction;[107] therefore, the economy relies on valorization, which is the paradoxical development in Turkey.

For a long period of time, commerce had been the main economic activity causing the structural underdevelopment and a foreign exchange crisis without addingpermanent value. "The

[105]Benan Eres, "Capital Accumulation and the Development of a Financial System: The Turkish Example." Review of Radical Political Economics (37.3), pg. 320-328, 2005.
[106]Korkut Boratav, "**Review Article: State and Class in Turkey**" , Review of Radical Political Economics, 25 (1), 1993, pg. 129-141.
[107] K. Marx, **Capital**: Volume 3, London, Penguin Books, 1981, pg. 382.

historical development and subsequent transformations of the financial system are also marked by the property of commercial accumulation".[108] The nature of commercial capital has two disadvantages; first, the structural vicious position in terms of industrial division of labor in the world economy and second, frequently experienced foreign exchange crises.

According to Aybar and Lapavitsas,[109] in the exploration of the financial system, there is a transformation of commercial credits from industrial capitals to money transactions. When we consider Turkey, "The banking system, exploits the profitable opportunities of the demand for the services of '…systematizing and extending pre-existing networks of trade credit among their customers'".[110]This interpretation indicates the primary momentum of the banking system in Turkey during the time until the full integration of the economy in the neoliberal world.

The development of the banking system in Turkey before 1930 can be described as premature in that it was able to provide the necessary intermediary activities of commercial firms. Therefore, pre-existing networks indicate two tasks of the banking system, including trade credits and the financing channel of public debt. However, after 1977, developing private bank entrepreneurs began to take on the role of all debt intermediation activities. It should be noted that the existence of the local banking system depended upon the commercial accumulation model before industrialization. According to Eres, the banking system at that time was neither a substitute nor complementary for lending credit. Controversially, banks had been trying to bring in customers who were excluded from state subsidies and credits.[111]Through the boom in trade opportunities, holding banking led to a period ofthe revival of private credit after the mid-1940s. The investment gap and interests of capitalists were met by the changing disposition of the times.

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[108]Eres, op. cit., pg. 320-328.
[109] S. Aybar, and C. Lapavitsas, "**Financial System Design And The Post-Washington Consensus**", In Development Policy In The Twenty-First Century, (ed.) B. Fine, C. Lapavitsas, and J. Pincus, New York: Routledge, 2001, pg. 28-51.
[110]Eres, op. cit.
[111]Ibid.

2.2 Financialization before 1980

In this section, the author would like to review the economic conditions of the 1970s. Due to the impact of thecrisis in 1973 and 1974, the dependency parameters of the Turkish economywere redefined. From the beginning of 1970, the recession became obvious, with large public deficits due to the high government expenditure, the problem of balance of payments, and a lack of foreign currency. The oil shocks in 1973 and 1974 heralded the end of the post-World War II economic calm. We witnessed transformation in capital accumulation as well as in the financial system. The stagflationary policies of Keynesians had lost the policy battle to the monetarists, and antagonist policies changed the entire economic climate.[112] There were two significant developments in the world economy during this time. The first was the technological revolution in data processing and the conspicuous effects of it on money circulation, while the second was deregulation, particularly in the labor markets.[113]

The increase in oil prices in 1973 and the negative effects of the crisis on the world economy triggered a global recession. It is clear that the policy of import substitution has been influenced by the recession. The reduction in global trade volumes particularly affected exports of traditional goods, which led to larger current account deficits than before. Although global instability increased, the government has continued its expansionary fiscal policy. Because of fixed exchange rate systems, inflation and value of exchange increased. All the results after the oil crisis exposed the structural problems of the policy of import substitution. Although the policies were successful in the sphere of consumption, Turkey could not find enough foreign currency to compensate the increased import volume.[114]Under the prevailing conditions, such as rising oil prices, insufficiency of foreign exchange earnings, expansionary fiscal policy and high inflation rates became obstacles to the development perspective of Turkey.

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[112]C. Lapavitsas, **Finansallşma ve KapitalizminKrizi,** TunceşÖncel**;** D. Papados, **GünümüzKapitalizmindeMerkezBankacılığı: EnflasyonHedeflemesi ve FinansalKrizler,** 2009, pg. 171-202.
[113]Lapavitsas, op. cit., 2010, pg. 39.
[114]Tellalbaşı, op. cit.; Z. Öniş, "**The State and Economic Development in Contemporary Turkey: Etatism to Neo-Liberalism and Beyond**", State and Market: The Political Economy of Turkey in Comparative Perspective, (Ed). Z. Öniş, Boğaziçi University Press, İstanbul, pg.455-476, 1999.

The era before 1980, financial system represented the regulated banking system. Therefore, the low diversification of the government and the treasury bonds restricted the depth of financialization.[115] The period before 1980 can be summarized as follows: the activities of foreign banks were restricted and even forbidden. The banking system at that time reduced into two functions, through decreasing deposit and giving credits. It can be said that even if import substitution policies were accepted by government, the obstacle of development in the financial markets was based on the lack of intermediary institutions. For instance, private banks regenerated new dependency dynamics since Turkey had to borrow foreign currency from out of the country.[116] It was commonly believed that the inefficiencies of the banking system with low-qualified portfolios caused distortions in resource allocation. With the exception of the banking system during 1970s, productive banking activities did not exist tostimulate investments and reproduce surplus value.

During the year 1979–1980, inflation rates reached over 100%.In contrast, the average growth rate was -0.4%. Turkey had signed two stand-by agreements with IMF in order to recover from its structural problems. In contrast, because of these policies, the industrial production and the investment rate decreased dramatically. Although without the repudiation of the stand-by agreements, the internal problems, such as the slowdown in growth rate, the high unemployment level and the burden of foreign debt could not have been overcome.[117]

Starting in the 1980s the adjustment program retained financial liberalization policies, such as deregulation of financial markets, liberalization of capital movement, and indirect supporting transformations; deregulation of industrial product markets and trade liberalization. In 1980, the economic situation of Turkey was favorably related to the development perspective of the period.[118]Just as in developing countries, Turkey had adopted import substitution strategy with a substantial degree of protectionism. The ideological target of the Turkish government in the

[115]Tellalbaşı, op. cit.
[116]Tellalbaşı, op. cit., 2011; O. Esen, "**Financial Openness in Turkey**", International Review of Applied Economics, Vol. 14, No.1, 2000.
[117]Tellalbaşı, op. cit.
[118]Ibid.

1980s was to create a market-based system. The development of financialization in Turkey began with the liberalization program in the early 1980s. Before initiation of the deregulation program, the number of state-owned banks exceeded the number of private banks. Additionally, regulations had placed ceilings on deposits and lending costs.[119]

2.3 24th January Decisions

The crisis in 1979 impacted primarily on the wage earners in cities. The slowdown in production with the concurrent rise in inflation prevented the channels of the capitalist class from providing surplus-value, such as credit, foreign currency, and tax subsidies. The negative influences of the crisis drove the working class to be more organized into labor unions.[120] According to Kepenek,[121] the loss in labor days due to strikes in 1977–1978 was 2.5-fold higher than during the strikes in 1973–1976. Therefore, the economic crisis caused a powerful class struggle between the laborers and the capitalists in Turkey. This claim can be proven with the implementations of the government in 24th January Decisions.

In 24th January Decisions, the Stability Program of Turkish Economy was defined as the basic conversion of the national economy. In the long term, the main goal was integration into the world economy through commercial policy and financial liberalization. Moreover, the targets in the short term providedfor price stability and identification of solutions for the problems in the external balance of payments. To achieve the targets, the government attempted to cover the lack of foreign currency, to reduce the rate of inflation, and to upgrade the growth rate.

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[119]Oya Pinar Ardic and H. Evren Damar, "**Financial Sector Deepening and Economic Growth: Evidence From Turkey**", Working Papers 2006/19, Bogazici University, Department of Economics, 2006.

[120]Korkut Boratav, **TürkiyeİktisatTarihi: 1908-2005**, İmgeKitabevi, 2007, pg. 146.
[121]YakupKepenek, **TürkiyeEkonomisi**, ODTÜ, Ankara, 1983.

The 24th January Decisions can be evaluated within three structural transformations:

1. The devaluation in domestic currency,
2. The increase in prices of State Economic Enterprises (SEE),
3. The decision which removed the price control mechanism.

As stated by Boratav,[122]considering all of these assessments, the survey can be laid out in three consequences. First, structural changes in the economy exceeded the directives of the IMF. Second, in chorus with the stabilization program, the decisions developed a *structural integration program* which targeted the working class in front of the international and national capitalist class. Third, the policies, which are defined as the enemy of laborers by Boratav, could not be implemented under the conditions of the prevailing political instability in 1978–1979.[123]At the end of the process, the army intervention on 12th September 1980 controlled the labor market.

The 24th January Decisions can be described as the reflection of high wage levels. It was the typical assertion by the supporters of neoliberal policies that the current wage levels during 1970s blocked the growth of necessary export volumes. Therefore, to protect the interest of the capitalist class, the government systematically focused on deregulating the policies of the labor markets. It is a compelling case that even Kenan Evren, the commander of the Army of Turkey, complained about the high wage level.

Furthermore, to diminish the domestic demand, the state preferred to reduce the wage levels of laborers and civil servants rather than implement contractionary fiscal or monetary policy.[124] Boratav stated that the behaviors of the state were clear from the side of the capitalist class. The 24th January Decisions revealed the unfair face of the state to the laborers.

[122]Boratav, op. cit., pg.148.
[123]Boratav, op. cit., pg.147.
[124]Boratav, op. cit., pg. 149.

Under the conditions of 24th January Decision, to achieve development in the free market economy, the government minimized state interference. Removing price controls and subsidies as well as reducing customs duties can be considered in this context. By liberalizing foreign trade, several transformative strategies were implemented, such as making foreign currency more expensive. Additionally, cheap credits and subsidies were applied to promote the national bourgeoisie. The program of encouraging exports was enhanced to stimulate savings and improve the role of private investment.

Deposit and lending interest rates were liberalized in June 1980. Incidentally, in 1982, the competition in interest rate by bankers led to the dawn of Ponzi finance due to bankruptcy of some banks with inadequate deposit accounts. This chaotic situation in the financial market is evaluated as the first negative consequence of neoliberal policies in Turkey.

The period from 1984–1987 is considered under the section of ANAP Period.[125] In the ANAP Period, the significant development of financial liberalization will be analyzed as follows:

- In 1984, regulations in the exchange rate system and permission for individuals to possess deposit accounts in foreign currencies were implemented. However, pressure of the following government policies on wage earners compensated for the positive effects of the financial liberalization, for instance the Value Added Tax (KDV) in 1985.
- In 1986, the Istanbul Stock Exchange became the center of the financial market. However, as with many institutions, this situation was viewed as an alternative option for rentiers. On the positive side, the volume of consumer credits began to increase through the availability of different credit options and credit cards.
- In 1988, the official foreign exchange market was established under the supervisor of the Central Bank of Turkey (TCMB). Incidentally, the liberalization of the

[125] Ibid.

exchange rate and the interest rate, the reforms in the accounting and the auditing standards, and the opening of foreign banks began to be allowed in Turkey.

In contrast, the developing financial market could not be sufficient to rescue the economy from another recession. Furthermore, the contractionary fiscal policies could not prevent a rise in inflation rate. The budget deficit became dependent on internal debt dynamics, such as the issuing of treasury bonds. Since 1981, instead of using the resources of the Central Bank, in order to finance the public deficits, the government was directly involved in the sale of government and treasury bonds. Subsequently, there were critical imbalances between the treasury and banking systems.

In 1988, the model of IMF was central among many obstacles. Blockage on the export-led growth model triggered a reduction in production. Additionally, there was the lack of financial resources to cover the government deficits. Domestic savings were inadequate; therefore, the need for foreign savings was increased. Furthermore, by integrating monetary policy to globalization, many different types of financial instruments were launched, and the financial market became uncontrollable. The consequences of these problems were revealed in the area of laborers' wages; in 1988, actual wage rates were 18% lower than in 1983.[126]

In 1989, liberalization and regulations in international capital movements were launched. A similar blockage would soon follow. The Brady Plan in the 1990s involved a high degree of liberalization and resulted in hot money inflow. Additionally, the current account deficit was enlarged by this inflow in countries such as South Korea and Asian countries (1997, 1998), Russia (1998), Brazil (1998), Turkey, and Argentina (2001).

[126]Ibid. pg. 152.

According to Yeldan,[127] the objectives of the integration with free movements of capital in 1989 can be according to three standards: first, securitization to regenerate the finance of public deficits, second, to prevent the threats over the substitution for Turkish Lira by foreign currencies (dollarization), and third, to stabilize the fluctuating financial market.[128]

There is a strong emphasis on the triggering role of the short-term capital movement on the analysis of the crisis of public finance. Insufficient structures before liberalization attempts are described in terms of premature liberalization (Rodrik, 1990). In summary, liberalization in the capital account began with the 28th and 29th decrees in 1983 and 1984, respectively. The interest rate system was liberalized in 1987. Next, full liberalization in 1989 was completed with the 32nd decree. Incidentally, all restrictions and forbidden activities on short-term capital inflow (portfolio investments) became allowed.

It can be indicated that with the 24th January Decisions, the devaluation, which included price increases in state economic enterprises and the removal of price auditing, were shocking precautions. Parenthetically, the government of Turkey at that time gave more than the IMF wished to provide in three years. During the time of Demirel, the government could not systematically apply the program. In contrast, after military intervention on 12 September 1980, Turgut Özal and the capitalists of Turkey were able to implement structural reforms.

The standard stabilization policy package contains all the World Bank structural adjustments. In the 1970s, under the conditions of the IMF, external blockages were imposed on the many overwhelmed, less-developed countries. Protectionist policies on imports from 1980–1990 had been removed by the 24th January Decisions, which became known as the cornerstone of liberalization. Exports of goods and financial markets were linked to the world economy. Price became the determining factor of the accumulation of the national economy and the distribution of resources. To increase exports, intensive subsidization by the government provided free-market conditions. After this period, the priorities of export expansion turned from

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[127] Yeldan, op. cit., 2009.
[128] Ibid. pg. 128-129.

the manufacturing sector to the finance and foreign exchange services.[129] As a consequence, Boratav[130] claims that during this period, the role of the bourgeoisie was not the investor, but was the intermediary, while the consumer was the parasite of the system.

2.4 Financial Deepening after 1990

During the 1990s, Turkey was under the influence of three main factors. These included the removal of political prohibitions, the removal of restrictions on capital movements in 1989, and the Customs Union Agreement with the European Union in 1995.

Removing the restrictions on capital movements in 1989 meant that the money (interest) and foreign exchange rates had become linked to world markets. Therefore, the Turkish economy became increasingly open to fluctuations in international capital movements. Even though Turkey reached a growth rate of 5–6%, the current account deficit began to increase because of the circulation of hot money. The Turkish economy introduced new institutional transformations and regulations which were regulated by the hegemonic power of global financial actors.[131]

Turkey continuously maintained the schedules of IMF programs from 1998–2008. After the era of Özal, perks, public procurement, concession agreements and privatization, and financial gains steadily increased. However, until the year 2000, due to the situation, international capital began to constrict development.[132]

To decrease the inflation rate, the monetary policy was made passive through the policy of nominal exchange rate targeting. The stability policy in the real exchange rate was abandoned in

[129] Ibid.
[130] Ibid.
[131] Boratav, op. cit., 2007, pg. 172
[132] Ibid, pg. 173

2001, and floating exchange rates were now accepted. The fluctuating margin between interest rates and the expected exchange rate became more open to financial rent-seeking.

As a consequence, three crises were experienced in 1994, 1999, and 2001. Each of the three crises was caused by capital movements in anticipation of money coming from the high arbitrage and quantitative easing. All led to an increase in demand. As a consequence, the banking system became susceptible to sudden collapse.[133]

When the unstable monetary policy became a structural feature of the economy due to the IMF programs, monetary warming also caused an increase in the vulnerability of capital outflow. As a consequence, interest rates reached astronomical levels.[134]

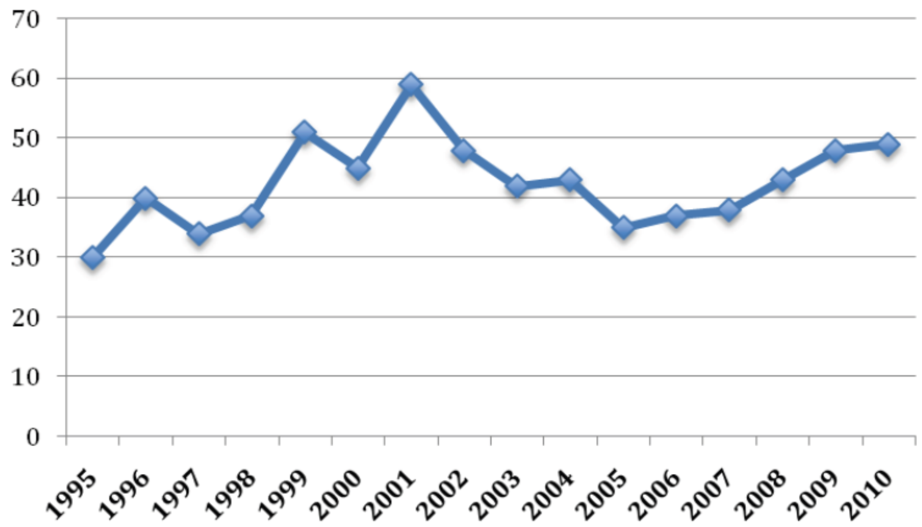

Figure 4: Financial Deepening
Source: Tellalbaşı, 2012; TCMB (http://evds.tcmb.gov.tr), TUIK (http://www.tuik.gov.tr/Veribilgi.do?tbid=57&ust id=16)

The measurement of financial deepening revealed the development level of the financial markets. The ratio of financial assets to GNP and the ratio of the amount of the money supply, M2Y, to GNP represent this measurement. In short, financial deepening is the ratio of the transfer

[133]Ibid. pg. 181-182
[134] Ibid, pg. 182

from the fund investments on financial markets to the real market.[135] Even if financial deepening showed a downward tendency from 2002–2005, the slope of the measurement increased in recent years.

In order to control the growing budget deficit, which emerged with chronic high inflation rates from the 1980s–1990s, the Turkish Treasury began to sell securities to commercial banks. By purchasing government securities, they had added a new activity to the traditional banking system in Turkey. There was a high net interest margin between borrowing and lending rates.[136]

Until the crisis in 1994, in which the currency was devalued and interest rates increased, the strategy of the banks could be defined as borrowing funds from abroad and giving loans to the government. Nevertheless, due to the difficult conditions for borrowing from international markets, banking activities shifted to mobilizing domestic savings as a means of increasing capital. In this manner, they were able to lend to the government.[137]

Year	**Banks**	**Branches**	**DEPTH**	**CREDIT**	**BANK-CB**
1990	64	5549	0,242	0,1411	0,735
1991	63	6162	0,2639	0,1666	0,7531
1992	69	6324	0,2794	0,1945	0,7575
1993	70	6235	0,2749	0,2191	0,7857
1994	67	6235	0,3296	0,2049	0,7444
1995	68	6383	0,3433	0,195	0,7428
1996	69	6618	0,416	0,2208	0,7692
1997	72	7064	0,435	0,2249	0,8047
1998	75	7574	0,463	0,4157	0,8425
1999	81	7909	0,6234	0,4824	0,847
2000	79	8078	0,5493	0,2342	0,8605
2001	61	7178	0,6538	0,2078	0,7379

Table 1: Financial Development Measures in Turkey for period 1990-2001.
Source: Ardıç &Damar, 2006; Levine, 2000

[135] Tellalbaşı, op. cit.
[136] Ardıç &Damar, op. cit.
[137] Ibid.

The development of financial actors for the period 1990–2001 can be measured using three traditional explanatory ratios of financial deepening. Table 1 shows the measurements of financial deepening, such as DEPT (total deposits/GDP), CREDIT (loans by out of the banking system/GDP), and BANK-CB (commercial bank assets/commercial bank and central bank assets). Financial depth statistics are used to measure how commercial banks mobilized the savings and circulated them within the economy. This yields substantial results from the financial depth statistics; after 1994, there was an increasing trend in mobilizing domestic savings by commercial banks.[138] Financial development in Turkey began in 1990.

Along with the number of branches, DEPTH and BANK-CB began to increase. Instead of competition for domestic deposits, the banking system began to expand their loan base. Although CREDIT remained stable in the 1990s, it is not clear how much of the savings were transferred into loans. Ardınç and Damar emphasized the argument in the literature asserting a positive relationship between the level of financial deepening and economic growth. A positive synchronized trend between growth and financialization following the banking crisis in Turkey should be considered. Several political problems may explain the crisis in 2001. It is clear that structural weakness of the financial sector pushed the economy down. The following weaknesses were identified: devaluation in currency, bankruptcies of several banks, and the decline in output levels.[139]

2.5 The Transformation of the Economy in 2000s

Turkey experienced economic and political crises in November 2000 and February 2001. Official reports revealed the cause of the crisis in 2000 and 2001 to be the failure of the public sector in terms of maintaining the austerity targets, as well as the failure of integration to

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[138] Ardıç &Damar, 2006; T. Beck, A. Demirgüç-Kunt and R. A Levine, "**New Database on the Structure And Development Of The Financial Sector**", The World Bank Economic Review, 14(3), pg. 597-605, 2000.
[139] Ibid.

globalization.[140] From the speech of Kemal Derviş, the Minister of Economic Affairs during the years of crisis:

> "*…the failures of the Turkish bureaucracy to implement the necessary structural adjustment reforms on time, thereby disturbing the market agents and letting foreign capital leave the country*."[141]

"The IMF has been involved with the macro management of the Turkish economy both prior and after the crisis, and provided financial assistance of 20.6 billion dollars in net terms between 1999 and 2002."[142]

In 1998, Turkey made an agreement with the IMF, which was appropriate for managing the budget in terms of reaching the target of a primary surplus. According to the agreement, the government had tocommit to the following:

- reduce government expenditure,
- accelerate liberalization,
- reform the social security system,
- strengthen the banking system,
- keep up the policies of synchronizing the movements of exchange rate and inflation
- Impose reductions in credits taken from the central bank by public initiatives.

The author would like to highlight the fact that the commercial banks drew upon the deficit in foreign currency and came to be the buyer of government securities. This situation pushed

[140] E. Yeldan, Panel presentation of Mr. Kemal Dervis, Middle East Technical University, Ankara, 27 February 2002.
[141]Ibid.
[142] Ibid.

them to more fragile financial relationships, and they gradually broke away from their essential activities. In 1999, macroeconomic statistics revealed the unsustainable conditions of the Turkish economy. To overcome the imbalances, at the beginning of 2000, a comprehensive medium-term program was implemented. The main purposes of the program can be laid out as the following: reducing inflation to single digits after three years, enhancing the balance of public finances, and providing a healthy environment to create sustainable growth. The Macroeconomic Program was based on the four following components:[143]

1. Fiscal policy, which tries to provide improving the balance of the primary surplus for public expenditures,
2. Income policies, which are based on the inflation target,
3. Monetary policy and exchange policy that focused on the decrease in inflation
4. To make the targets in inflation, and fiscal policy sustainable.

As expected, since 2000, the Sustainable Program caused the same consequences for developing countries, which were applied for many structural changes. These included the high volume of capital inflows, the rise in economic activities, stimulation in domestic demand, over-valuation of domestic currency, enlargement in the current account deficit, and the risk in improving exchange rates.

The lack of liquidity at the beginning of 2000, a result of the Central Bank of Turkey's (TCMB) lateness in intervening to determine the volume of net domestic assets, led to the markets losing their reliance on Lira. Even if TCMB improved liquidity, the reaction of the markets was negative for the Lira. Instead, they demanded foreign currency. Therefore, the situation reduced foreign currency reserves. In 2001, the crisis of foreign exchange markets occurred in public banks. After the first shock in November 2000, the fragile markets encountered another crisis. By reducing dollar reserves (which had diminished by more than 5 billion dollars), TCMB had interfered in the market. However, on 22nd of February 2001, TCMB decelerated the transfer to a floating exchange rate. Using a floating exchange rate system, the

[143]Yeldan, op. cit. 2009; BDDK, 2000: 10.

high devaluations and the high interest rate became significant problems in the Turkish Economy. In an article by Zaim,[144] which analyzed how trends in the banking system changed after financial liberalization, found that between 1980–1990,the number of banks, who had ensured the efficiency of resource allocation and as well as resource efficiency, had been increased from 38% to 55%.[145]Scholars determined that the reasons for the crisis in November 2000 were as follows:

(i) The rapid increase in demand for foreign currency due to illiquidity,
(ii) The deterioration in the international markets
(iii) The internal negative economic atmosphere

As a result of this situation, the “Disinflation Program" also came to an end. In February 2001, the monetary and the exchange rate policy, which had been forecast in the Disinflation Program in 2000, were abandoned on February 22nd and the floating exchange rate system was adopted in 2001.[146]

The policies after 2000's are analyzed from the perspective of stabilization and decreases in the inflation rate.[147] The inflation targeting policy is the first main determinant of central banks policies in Turkey in the2000s. The espousal of inflation targeting has been based on increased capital inflows not only in Turkey but also in other periphery countries.

Financialization was defined by Ergüneş[148]as the increasing growth rate of capital inflow, structural transformation in the relationship of economic actors, and changing the liquidity preference from long-term to short-term. Essentially, inflation targeting is an attempt to recreate capitalist interest. While the transformed version of the central banks has protected the interest of the private sector, it has also attempted to socialize the deficit of the financial sector.[149]Moreover,

[144]Osman Zaim, “The effect of financial liberalization on the efficiency of Turkish commercial banks”, Applied Financial Economics, (5.4), pg. 257-264, 1995.
[145] Ibid. pg. 263
[146]Yeldan, op. cit., 2009; Uygur, 2001: 54-55.
[147]Yeldan 2009
[148]Ergüneş, N. “Banka SermayesiÜzerindenSınıfiçiÇatışmalarıAnlamak”, PraksisDergisi, 19: 133-156, 2009
[149]Lapavitsas, op. cit. ;Papadatos, pg. 171-202

central banks do not interfere with speculative activities, nor do they prevent deficits due to unexpected inflation rates.

The second key altering formation is allowance for the entrance of foreign banks into the local banking system. Hence, the usual banking activities have been diversified, such as lending to individuals. On this point, we would like to point out that the attendance of households as the customer of credit has caused changes in the relationship between the banking system and industrial capital. Furthermore, the changing relationship has transformed the domestic accumulation model.[150]

The third significance of financialization is the excessive foreign reserve that attempts to prevent instability in foreign exchange rates and shocks to the balance of payment system, under the conditions of unexpected capital outflows. This orientation has been advised by the IMF before beginning the negotiation process in order to avoid a fragile foreign exchange market. In the literature review section, we did not undertake a deep analysis of the phenomenon of inflation. It is a common fact that developing countries are subjugated by the pressure of the Bretton Woods institutions in order to cope with global competition.[151] After the collapse of the Bretton Woods system, removal of the gold standard has promoted the instability of foreign exchange rates, inflation in prices, and financial speculation. All of these consequences have crystallized the anarchic nature of the capitalist system.[152]

The turning point for developing countries was the crisis in Asia in 1997–1998 when external debts crashed the economies with high current account deficits. In contrast, in the 2000, China and the fuel exporting countries began to accumulate a current account surplus.[153]In addition to the excess reserve accumulation, monetary sterilization had to be undertaken due to the negative effects of foreign capital inflow on developing countries. However, this resulted in a

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[150]C. Lapavitsas**, Finansallşma ve KapitalizminKrizi,** TunceşÖncel**;** Nuray Ergüneş, "**Finansallşama DönemindeTürkiyeEkonomisi'ninKüreselBütünleşmesi**", YordamYayınları, 2009, pg. 299-329
[151] Ibid.
[152]Lapavitsas, op. cit. ;Papadatos**,** pg. 171-202.
[153]Lapavitsas, opt. cit., pg. 299- 329; Ergüneş; op.cit.

high domestic debt burden.[154] Additionally, the most important effect of inflation targeting has been a deregulated labor market, since the practice of indexing wages to price levels has largely disappeared. Under the veil of non-inflationary growth policies, deregulation became deeper. Labor protection laws were loosened, while competition in the product market by the impact of international trade agreements increased.[155]

In 1999, the government introduced disinflation and macroeconomic restructuring programs for three years, from 2000–2002. The exchange rate-based stabilization program was supported by fiscal policies and structural reforms, such as pension system reforms, tax policy reforms, agricultural reforms, and fiscal measurement-transparency.[156]Initially, the disinflation program was evaluated as successful, but this appearance faded in 2000. A few months later, it was understood that currency pegs should be abandoned and replaced by afree-floating regime. At the hands of the IMF in February 2001, Turkey changed its currency regime.[157]

In order to eliminate "the confidence crisis" and instability in financial markets, the government accepted a new program known as "Transition to a Strong Economy". This program had consisted of three main structural reforms, in banking, the public sector, and private sector reforms. The first field of reforms was described by Ergüneş as follows:

(1) Reconstruction of the banking system as whole by (1. a) financial restructuring in public and SDIF banks, (1. b) make strengthen private banks, (1.c) banking regulation, and supervision. The second field of the reforms contained

(2) Public governance, for instance (2.a) public administration reform and (2.b) public expenditure management reform. In order to improve private investment a third field of reforms comprised

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[154]Lapavitsas, opt. cit., pg. 299- 329; Ergüneş; op.cit. J.P Painceria, "Developing Countries in the Era of Financialization: From Deficit Accumulation to Reserve Accumulation", Historical Materialism, 2008.
[155]Lapavitsas, opt. cit., pg. 299- 329; Ergüneş; op.cit. Montgomerie, "**(Re)Politicizing Inflation Policy: A Global Political Economy Perspective**", Center for Research on Socio Cultural Change, Working Paper , No. 53.
[156]Lapavitsas, opt. cit., pg. 299- 329; Ergüneş; op.cit.
[157]Lapavitsas, opt. cit., pg. 299- 329; Ergüneş; op.cit.; Akyüz and Boratav, "Making of the Turkish Financial Crisis", Gerald Epstein (ed.) in Financialization and the World Economy. Edward Elgar, 2005.

(3) Private sector reforms, (3.a) privatization, (3.b) corporate governance, (3.c) encouraging foreign capital.[158]

In implementing the process, the dependency of corporations was reduced with the transformation in commercial banks. The auditing autonomy of big companies on the interest rate and the volume of credit became *defacto*in operational. Therefore, the situation caused a high volume of deposits. These developments laid the groundwork for deregulation policies.

The reason for the continuity of indebtedness resulted from the functions of the banking system. The profit of the banking system depends on creating new assets. The argument of the core and periphery is related to capital transfers from the core to the periphery in terms of the portfolio and green field investment. Therefore, the tendency of lending credits by the periphery capitalist can result in efficiency and profit, which is private. For an indebted country, stressful economic liabilities, such as decreasing investments and high unemployment rates, are public and societal.[159]

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[158]Lapavitsas, opt. cit., pg. 299- 329; Ergüneş; op.cit.
[159]Gürbüz, B., "**SürdürülebilirBorçlanmanınEleştirisi: BaşkaBirSürdürülebilirlikOlgusu Ve Türkiye Örneği**", Galatasaray ÜniversitesiİktisatBölümü, *http://bs.gsu.edu.tr/akademik/bgurbuz/Borcun%20surdurulebilirliginin%20elestirisi.pdf*, 28th November 2011.

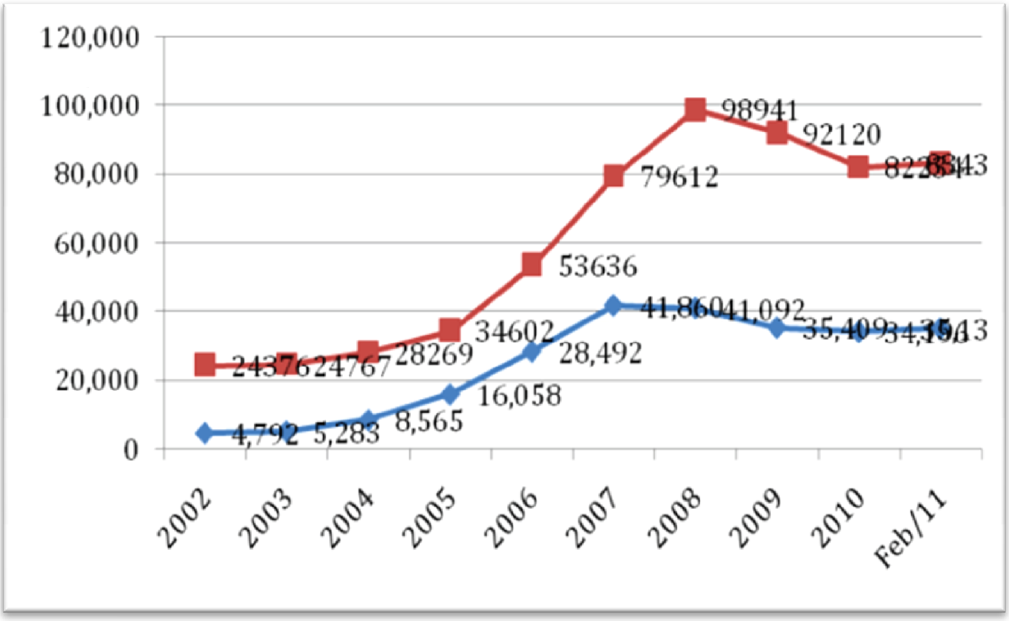

Figure 5: The Debts of Financial and Non-financial Firms (billion dollars)

Source: Işıl Tellalbaşı, 2012; TCMB (http://evds.tcmb.gov.tr/, 19th March 2011)

In order to examine the recent development in the financial dominance on household in Turkey and moreover, to apply the root of Lapavitsas analysis to Turkey, there are three table which contain the financial assets and liabilities of households, individual credits and the distribution of these credits among households in Turkey. According to the Financial Report December 2012, Table 2 can be the best observation about the trend of financial activities in the lives of households. In both the financial assets and financial liabilities has reached the highest level since 2004. At the end of 2012, the consumer credits are 198, 5 billion TL. Especially, the credit cards in 2012 is ten times higher than 2004.

Table 2: Financial Assets and Liabilities of Households in Turkey

Billion	2004	2005	2006	2007	2008	2009	2010	2011	2012
Financial Assets	190,7	216,3	256	281,8	353,8	402	450,3	514,3	572
Individual Insurance Funds	0.3	1,2	2,8	4,6	6	9,1	12	14,3	20,3
Securities	12,4	15,8	15,7	17,5	10,8	24,5	32,6	30	37,7
Liabilities of Private Sector								4,9	10,4
Structured Product									0,01
Public Debt	41	33,3	27,7	19,2	19,7	13	8,4	10,3	5
Saving Deposits	124,6	150,2	188,8	221,1	278,4	307,7	352,1	405,4	445,2
Money in Circulation	12,4	18,2	24,4	25	29,3	34,3	45,2	49,4	53,4
Financial Liabilities	18,1	39	60,6	84,1	102,5	118,9	159,4	206,3	247,1
Consumer Credit	12,8	29,7	48	68,9	85,2	97,4	132,7	171,6	198,5
Debit balance of Credit Cards	4,4	7,5	10,7	12,6	14,7	19,1	23,2	29,6	42,2
Credits of Financial Service Companies	0,9	1,8	1,4	1,7	1,6	1,7	2,9	4,4	5,7
Individual Leasing			0,5	0,9	1	0,7	0,6	0,6	0,7
Financial Liabilities/Financial Assets (%)	9,5	18	23,7	29,8	29	29,6	35,4	40,1	43,2
Financial Liabilities/GDP (%)	3,2	6	8	10	10,8	12,5	14,5	15,9	17,7

Source: BDDK, SPK, EGM, TCMB, MKK

According to the Table 3, the increasing trend in individual credit is higher than the commercial and Institutional credits. I would be the support of the assertion by Lapavitsas that argued the shifting of the consumer base of the banking system from institutional investors to individual income. The highest improvement in credit cards and also the mortgage credits can present the dramatic effects of debt burden on the households in Turkey. Furthermore, rather than the single entries in the table, the total credit amount since 2008 has reached to two-fold which shows the expanded credit base just in four years.

Table 3: Types of Credits

	2008	2009	2010	2011	2012
Commercial-Institutional Credits	165,7	179,4	227,8	296,2	330,4
SME Credits	84,6	83,3	125,5	162,8	198,4
Micro Firms Credit	33,1	29,2	42,6	54,8	55,2
Small Firms	22,3	22,1	32,2	42,7	62,3
Middle Firms	29,2	32	50,7	65,2	80,9
Individual Credits	117,1	129,9	172,6	223,9	265,9
Mortgage	38,9	44,9	60,8	74,6	86
Vehicle Loan	5,5	4,4	5,7	7,4	8
Consumer Loan	33,4	38,4	45,8	62,1	67,4
Other Credits	5,3	5,6	16,7	24,4	32,8
Credit Cards	34	36,6	43,6	55,5	71,6
Total	367,4	392,6	525,9	682,9	794,8

Source: BDDK, Financial Report December 2012

In the Table 4, even if the distribution of credits shows that the large amount of total credit base are used by people who get in to debt more than 1 million TL, the 97% of the number of customer has taken credits between 51 thousand - 100 thousand TL. The situation presents that the banking system targets the customer who need low amount of credits.

Table 4: The Distribution of Credits in terms of Amount and Number of Customer

	Credit Amount (%)				**Number of Customer (%)**				
Credit Amount	2008	2009	2010	2011	2012	2008	2009	2010	2011
More than 1 Million TL	45,6	47,3	49,7	48,3	0,1	0,1	0,1	0,1	0,1
501 thousand - 1 Million TL	4,1	3,8	4,3	4,4	4,6	0,1	0,1	0,1	0,1
101 thousand - 500 thousand TL	11,2	10,1	10,8	11	11,1	0,5	0,5	0,7	0,8
51 thousand - 100 thousand TL	7,2	7,1	7,5	7,7	7,8	1	1	1,4	1,6
less than 51 thousand TL	31,9	31,7	27,8	28,1	28,2	98,4	98,4	97,8	97,3
Total	100	100	100	100	100	100	100	100	100

Source: BDDK, Financial Report December 2012

PART 3

THE JUSTIFICATION OF THE RESEARCH

3.1 Problem Statements

Even this thesis asserts that the definition of financialization by Hoca does not contain the concrete relations of the economic actors; he dropped the hint about the indeterminist approach of Itoh and Lapavitsas on the relations between joint-stock capital and financial bank and institutions.[160]

“Finance capital cannot be reduced to joint-stock capital. Itoh and Lapavitsas defend this on the grounds that ‘joint-stock capital possesses both monopolistic features and complex relations with banks that are specific to nations and periods of time’”

The Author particularly claims that the relations between the economic actors have been defined by the major relations of sophisticated money transactions. As its starting point, the thesis identifies three economic relations that have persisted (i) between laborers and capitalists; (ii) between capitalists and financial intermediaries; and finally (iii) between laborer and the state.

The first of these economic relations, as defined by Marx, is the conflict between the laborer who owns only her labor to earn a living, and the employer who owns the means of production which can de Facto the laborer’s right to earn a living. The dynamics of capital accumulation closely links with this relation which has brought possession processes by the exploitation of surplus value.

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[160]Hoca,op. cit.; M. Itoh, and C. Lapavitsas, **Political Economy of Money and Finance**, New York, St. Martin’s Press, 1999.

The second of these relations is the one between industrial capitalists and financial intermediaries. This relation, roughly speaking, has been for the sake of financing investments of industrial capitalists. The actors of the financial side such as investment banks, finance capitalists and renters, who have economic ties with the industrial capitalists, have been subject to numerous analyses within the concept of financialization by contemporary scholars Dumenil and Levy (2004)[161], Krippner (2005)[162], Epstein (2005)[163], Orhangazi (2008)[164] and Wray (2009)[165].

Thirdly, although it has conceptual controversies in the literature, we bring the relation between laborer and the (welfare) state into this analysis by reading this relation straightforwardly as supply and demand of public goods, so as to leave the conceptual controversies aside. We stress that the welfare state has borne certain responsibilities such as providing housing, health care, education and social security to the working class prior the transformation of the state by neoliberal policies since the beginning of 1980's.

In the book "The global Financial Melt-down and Left Alternatives", the relation was redefined by the basis of the disordered transformation on the economic standards of the working class since 1970. In order to continue their lives with the same standards, worker had to become indebted to the banking system. Moreover, the retired workers put their post-retirement gratuity to financial papers.[166] Therefore, it would be said that the income of working people and retired had already expropriated in money circulation.[167]

Prior to the ascent of financialization, a conceptual distinction between real and financial domains of economic activity could somehow be mapped onto the economic relations between these agents. By the ascent of finance capitalism, however, the three economic relations

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[161] G. Dumenil and D. Levy, "**Neoliberal Dynamics: A New Phase?"**K. van der Pijl, L. Assassi, D. Wigan Global Regulaiton. Managing Crises After the Imperial Turn, New York: Palgrave Macmillan, 2004.
[162] G. R Krippner, "**The Financialization of the American Economy**", Socio-Economic Review, 3(2), 2005, pg. 173-208.
[163]Epstein, op. cit.
[164]Orhangazi, op. cit.
[165] L. R. Wray, "**The Rise And Fall Of Money Manager Capitalism: A Minskian Approach**", Cambridge Journal of Economics, vol. 33, no. 4, 2009, pg. 807–28
[166] G. A. Albo, "**In And Out Of Crisis: The Global Financial Meltdown and Left Alternatives**", 2011.
[167]Lapavitsas, op. cit.

identified above have undergone a fundamental change. Therefore, the article argues, any conceptual distinction between the real and the financial domains of the economy is no longer applicable or suitable to the genuine structure of these economic interactions; since we faced with an economic totality, which is ultimately centered around financial markets.

If this claim can be established, the question this article aims to answer is what is the relevance of this result for the working class? To unravel the answer, the article has to demarcate the transformations of these three foundational relations (i.e. [i], [ii] and [iii]). It is only then, the study can account for the relevance of this phenomenon for the working class.

Among these three relations, we give causal priority to the transformation of the relation between the working class and the state: By the 1980s, the welfare state has undergone political reforms to attain a relatively minimal responsibility towards the working class. As a result, its institutions have withdrawn from supply of certain public goods such as healthcare and housing; thereby creating a gulf (not only in terms of quantity, but also an institutional gulf) between the demand from the public and the supply of these goods (1).

On the other hand, the relation between capitalists and financial intermediaries has undergone a transformation, as well. Prior to the 1980s, functioning of the financial intermediaries was mostly and closely related to the finance of firms' investment costs. Nevertheless, again, after the 1980s, firms have begun to finance their investments by means other than financial intermediaries - e.g. securitization in financial markets. The firms have financed their investments via securitization; these firms became interwoven with the financial markets. This has given rise to profound linkages between banks and capitalists. As Tonak and Shaikh (2012)[168] have argued, diminishing rate of profit from real assets has compelled firms to transfer their returns from real assets to financial assets, which have profit margins relatively higher than the real ones.[169] In response to the loss in their real investments, firms try to

[168]Anwar M. Shaikh, and E. Ahmet Tonak, **Measuring the Wealth of Nations: The Political Economy of National Accounts**, Cambridge University Press, 2012.
[169]Stravelakis, op. cit.

compensate the profit gap through creating a portfolio of financial investments that are composed of various kinds of derivatives. The percentage of financial derivatives in total assets relative to the percentage of real market value has declined. In short: all economic actors perfectly integrated to global financial markets (2), and real production has finally been instrumentalised for mere financial value creation by corporations in stock markets.

Meanwhile, banking policy has turned its attention from investment finance to household expenditures. Types of financial intermediaries have proliferated, so did the services they offer: they offered insurance and credit opportunities for healthcare, housing and education - typically those goods which were then being supplied by the welfare state. As the financial intermediaries have fulfilled the functions that are freed up by a contracting welfare state, de Facto, working class have become economically more and more tied to the financial actors through insurance and credit channels (3).

Taken together, these transformations in (1), (2) and (3) give us substantial reason to hold the claim that, at the current stage of capitalism, it is more than difficult to make a non-arbitrary conceptual distinction between finance capitalist and non-finance capitalist; since all economic actors are somehow perfectly integrated within the body of financialization. However, integrity does not imply homogeneity. On the contrary, in the presence of heteronomy implied by social classes, we are likely to be dealing with an economic totality hospitable to class antagonisms. One such antagonism, for example, is the historical one between capitalist and laborer - i.e. (i). Nevertheless, the transformations outlined in (2) and (3) point out that, in addition to the historical antagonism, there is also a newly developing antagonism between capitalist and laborer under the mediating role of financial intermediaries. Growing dependency of the working class to financial intermediaries, coupled with the profound relations between firms and financial intermediaries, give us reason to think that this relation bears the processes of possession that are mild in their nature, yet, still existent.

Lapavitsas claims that the main target of global actors in 1970’s was to transform the national saving to investment. The need of investment of the financial institution drove them to change the balance of payment in terms of the capital account. Therefore, the center capitalist countries put pressure on periphery countries to regulate the capital account. The main reasons of supports to this policy by periphery countries were that the foreign debt of these countries could be financed by the determinant of the risks of free markets. Furthermore, free markets have the advantages of stimulating the economy by the short term foreign investments. With the perspective of the theory of center-periphery; after 1980, there were two prominent integration ways for periphery countries to core counties, such as securitization of public assets and keeping foreign reserves.

First link of economic dependency conceptualized with the securitization. Financialization in developing countries in 2000's has especially based on securitization of public debt. The economists assert that securitization of public assets by financial institutions has triggered the high level of government debt burden with the exponential interest rates.

Papadatos (2009) examined the securitization process by the term of "creation and circulate". Investment banks have recreated the credits by securitization. Furthermore, the top level of this process reached to the hypothec credits. By the word of the elimination of risk led to the regeneration of the risk in many sectors. As a phenomenon risk became structural risk or another word; systemic risk. Just circulating the risks, the credit rating agencies and the other financial intermediaries has earned profit. As consequences, Papadatos asserts that the highest contribution to the crisis came from the sovereignty of intermediaries.

The second element of dependency relations contains the pressure of core countries on developing ones about keeping foreign currency for reserve in their central banks. Not only the transformation in the role of state in neoliberal world, but also the role of central bank has changed from the lender of last resort to the main protector of financial interests.[170]The author would like to draw attention to the fact that although the power of central bank in economic management has decreased, the political directory role is still the caretaker of the state. There is a

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[170]Lapavitsas, op. cit. 2010;

substitution between the state and the central bank. Instead of the state, the central has the regulative authority on the markets by compensation of default risks of financial market.

The changing direction of capital transactions during the period in 2000's should be highlighted in order to emphasize the importance of dollar reserve. Dollar reserves (quantity easing) have provided the capital transfer from poor countries to rich countries, especially to USA.[171] On the other hand, it is known that Neo-Classical Economists establish their theories on the opposite assumption. The assumption tells that because of the gap between the expected interest rates on saving in poor countries and rich ones, the flows of capital shift from the riches to the poor. Therefore, the transfer generates source for investment in poor countries.

The increase in reserves cannot be considered alone. The broaden roof of this policy change exactly should be described with the monetary system. Moreover, the changing role of central banks is just the sub-consequence of the new monetary policies. In 1980, the monetary policy in USA and other capitalist economies had changed radically. The new policies can be reviewed as targeting the interest rates as a tool of public finance policy, and price stability (inflation) because of the high pressure came from creditors and diminishes of real wages of working people.

"A defining moment was the change in monetary policy in 1979 focusing monetary policy almost exclusively on price stability and introducing high interest rates, both profoundly beneficial to finance". [172]

Marxist basis of class formation can be explicated as the mutual indeptness that the forms of interdependence during the securitization of Mortgages, automobile and collage loans, credit cards and the other ideal of consumer freedom.

[171]Lapavitsas, op. cit.pg. 171-202; Papados, op. cit. pg.180.
[172] G. Isaacs, **Contemporary Financialization: A Marxian Analysis**, Journal of Political Inquiry (4), 2011.

Investment introduces new demands of literacy and scrutiny, of attention to the movement of capital beyond the aggregates of annual growth and measures of volatility.[173] Though the theory of labor as capital is the major financialized agent of the economy has been detailed with the words of Bryan, Martin and Rafferty (2009)

"If the decomposition of the peasantry yields the industrial proletariat, middle-class decay and working class aspiration herald the shift from consumer to investor, only to place the work of investment in the fleeting and emergent situation of a "hostile opposition." Labor-as-capital is asked to live or die by capital's internal movement, where capital is abstracted from particular sites of investment, jobs, residences, or services. This intensification is labor's and capital's financial makeover."[174]

[173]D. Bryan, R. Martin and M. Rafferty, "**Financialization and Marx: Giving labour and capital a financial makeover**", Review of Radical Political Economics, 41(4), 2009, pg. 458-472.

[174]Ibid. pg. 471.

CONCLUSION

The high volume of financial transactions has changed the nature of the relations between the real and the financial markets. Instead of functioning as a source of funding the real market activities, financial markets have turned into a stage of "advertisement" for the real money relations. It is a critical fact that the valuation of financial assets has been the main aim of real institutions.

The author has underlined the transformed relations among the economic actors. Even if the meaning of "transformed" is reminiscent to the changing role of actor just in appearance of relations, the emphasis in this thesis while saying "transformed relations in economic actors" tries to sign the core of these relations. The transformation in all the economic activities has conceptualized with neoliberalism and globalization. However, these concepts offer a limited viewpoint over the recent crisis. There is an already existent literature on the theory of financialization which might help us to comprehend the recent economic recession with broader definitions and the dynamics of the changes in capitalism.

For the future studies, the author would like to revisit the section where we did problem statement and the aim of the thesis. By following the theory of Lapavitsas, we tried to pin the relations between economic agents down to three: (i) between laborers and capitalists; (ii) between capitalists and financial intermediaries; and finally (iii) between laborer and the state are going to be structured in that part. Visa-versa the transformation in the economic relations between these agents and deregulation policies of the governments, there is a contradictory relation between the individuals'needs for living and the investment costs of businesses. It can be said that the fictitious character of financial transactions, even if the conceptualization of "commodified capital" has emphasized intertwined relationships, the real and financial transaction means superior determination for the economic actors.

In all modesty, the contribution of this study is that the financialization process has been described with a sequential exposition. The fundamental touchstones and their relations with the tendencies of capitalism have been endeavored. The explanations show the facts and dynamics of the system; monopolization and financialization which are being described as the fate of capitalism in Marx' writings.

The study aimed to have brief survey of the theory of financialization. However, impartial critical theories of the historical turning points on accumulation of capital have been outlined. Each stage of the financial expansions of the global economy has been changed the theorization. The recent development of capitalism; financialization has comprehensively examined by the contributions of the Marxist scholars.

In fact, the main purpose of the study could not be completed, just as in the problem statement of the dissertation attempted to structure a theoretical basis in order to examine the impact of financialization on the working class. In her future studies, the author would like to elaborate the relations between laborer and capitalist with respect to the deregulated labor markets.

The depth of financialization has been underpinned by the following reasons: the falling rate of profit in real market and the compensation of the loss, the pressure on the real wages since 1970's, the inflation targeting policies after the change in foreign exchange system which had given the power to US Dollar by higher reserve in developing countries.

In the first part of the overview of research, the historical background since 1970's has been outlined. During that period, there had been two critical developments in the heterodox economics literature: firstly the high expansion in industrial production and the diminishing rate of profit in the center capitalist economies, and secondly as a sequential process, the control on the market has shifted from government to the financial intermediaries.

The literature review of the dissertation has taken the contributions to the theory of financialization from the earliest argument which had begun in Monthly Review. Magdoff and Sweezy had underlined the phenomenon of stagnation of the capitalism. Moreover, the emphasis is related with the interaction of finance and real production. Although Sweezy had conceptualized the process as a new accumulation model in the classification of stages in capitalism, which explains the slowdown in economic growth, the conceptualization was not examined. Moreover, the dominance of finance had seen the examination of the law of motion of capital. In more abstractive level than before, Foster asserts that monopoly finance capital sketched to an independent level rather than a temporary era. There is a misled aspect in Foster's claim that the transformed relations between the households and real market or between the working class and the capitalists. Lapavitsas has deepened the theory with the contribution of the synchronized process of structural reforms in economic institutions. The structural change was that the new customers of the banking system became households rather than firms.

In the theory of finance capital, Hilferding had conceptualized the direction of capital movements and superior impacts of investment bank on real market. However, he was wrong while claiming the direction of capitalism to be dependable on investment banking. He asserted that the industrial capitalist will grow up more than the finance-based ones. On the other hand, the financial assets have brought more profit than the real production.

In the part of the dynamism of new accumulation model, the contemporary conceptualizations of financialization have been detailed. The theory of *financial expropriation* on the wage earners created the escalation of the problem statement of this dissertation. The study is an attempt to combine the highest abstractive level of the theory of financialization by Hoca, and in concrete level, the theory of Lapavitsas in terms of the divergence from the intensive relation of the banking system with investors to individuals.

The definition by Hoca; "Finance capital is commodified capital, which circulates in financial markets and is controlled by the class of finance capitalists mainly through financial institutions, and monopolizes industrial capital by constituting a large and increasing part of it, especially after crises."[175]

In the analysis of the evolution of financialization in Turkey in the early time of the Republic of Turkey, it is highlighted that Turkey is a peripheral country within the division of labor of the world economy. Another emphasis was on the principal basis of capitalism in Turkey is commercial activity. The commercial feature of the economy is significant because merchants' capital accumulation does not progress by creating surplus value, but depends instead on circulation and reproduction.

Until early 1970s, the banking system in Turkey was not developed to be successful in intermediary activities. That is why the development of the capital was taking its dynamism from relatively premature accumulation. Due to the impact of the crisis in 1973 and 1974, the dependency parameters of the Turkish economy were redefined. From the beginning of 1970, the recession became obvious, with large public deficits due to the high government expenditure, the problem of balance of payments, and a lack of foreign currency. The oil shocks in 1973 and 1974

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[175]Hoca, op. cit.

heralded the end of the post-World War II economic calm. . We witnessed a transformation in capital accumulation as well as in the financial system.

In 1980's, the integration of Turkish economy into liberalization trend under military regime resulted indeformation of Etatist policies. With January the 24th Decisions, the Stability Program of Turkish Economy was defined as the guiding principle of the national economy. In the long term, the main goal was integration into the world economy through commercial policy and financial liberalization.

For the recent transformation, the sustainable program is analyzed. As expected, since 2000, the Sustainable Program caused the same consequences for developing countries, which were applied for many structural changes. These included the high volume of capital inflows, the rise in economic activities, stimulation in domestic demand, over-valuation of domestic currency, enlargement in the current account deficit, and the risk in improving exchange rates.

The missing points in the dissertation can be identified by fallowing deficiencies. First of all, in the second principal part of the thesis; in the case of Turkey, the recent transformations, such as new regulations in the banking sector, new implementations on the order of financial institutions and the establish methodology could not be disclosed. Secondly, the theorization could not be structured as an applicable for the financialization process of Turkey. Even if, the statement of the part has been critiqued with the references of the Marxist scholars, the recent years which can be adumbrated as a transition period, could not be elaborated.

All in all, financialization process has been impeded the primordial struggle between the working class and the capitalist class. The financial intermediaries and banking system have provided the sustainability of the deregulated labor market. Since 1970, due to the diminish in the real wage, the wage earners have tried to compensate the gap of their vital needs, such as house, education, health expenditures, with debt burden. Also, with the dominance of neoliberal policies, the welfare state has relinquished these responsibilities towards the citizens. That is why the trend of debt volume of households is growing up gradually since the beginning of 1980.

Diversifications of the financial assets have enforced the limits of its accumulation system. The reproduction of the system is now more complicated and harder. It was predicted that there will be a time of coming up the phenomena of over production for the financialized world. It is the deductions that capitalism has its own dynamism, tendencies; especially these are called as the law of motion of the system. However, the dynamism is not enough for a recovery mechanism, because, for the working class, there has been an obstacle for the recreation process in production. The financial activities and their responsibilities have taken so much time to solve in the minds of working people.

In conclusion, the author has tried to do a harmonized definition of financialization as follows:

Financialization is a structurally different accumulation model which has evolved from the upgrading capitalistic model through the commodified capital transactions. In the recent version of financialization, there have been primarily transformed relations(i) between laborers and capitalists; (ii) between capitalists and financial intermediaries; and finally (iii) between laborer and the state.

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Years	Total reserves (includes gold, current US$)	Money and quasi money growth (annual %)	Private credit bureau coverage (% of adults)	Market capitalization of listed companies (% of GDP)	Foreign direct investment, net inflows (BoP, current US$)	Domestic credit provided by banking sector (% of GDP)	Portfolio equity, net inflows (BoP, current US$)
1960	205127600					24,27302938	
1961	195570000	9,69030969				22,21535029	
1962	190280000	9,289617486				23,00944358	
1963	178272880	13,33333333				23,23784838	
1964	142339680	17,86764706				23,67821234	
1965	141387680	18,83967561				26,11813631	
1966	131543660	23,04461942				26,70135201	
1967	119539200	15,65699659				27,10983213	
1968	142104900	15,19734415				25,51074562	
1969	245673600	17,03490234				27,43602929	
1970	439755730	21,89603283				27,84170483	
1971	781035820	28,13054115				27,07947876	
1972	1493838187	26,02739726				27,91199723	
1973	2386717183	28,42210608				27,2701831	
1974	2227398008	25,6645597			64000000	27,82834668	
1975	1444445679	28,01023221			114000000	32,45603159	
1976	1471465322	23,43010934			10000000	36,00590011	
1977	1237511840	33,80031399			27000000	39,7086187	
1978	1630117685	36,53148859			34000000	35,69877371	
1979	2586031059	61,72498374			75000000	32,57313984	
1980	3298027746	74,04442263			18000000	30,89175238	
1981	2425976886	88,3647362			95000000	30,48506518	
1982	2802367064	51,14404788			55000000	33,90442424	
1983	2728450650	29,7134463			46000000	35,11700154	
1984	2442157941	58,7053251			113000000	39,6061299	
1985	2317544699	55,1831419			99000000	39,89485832	
1986	2912506886	66,08930799			125000000	29,81853706	
1987	3630665117	53,32121578			115000000	29,73775827	
1988	3912434534	65,06417298		1,254776764	354000000	23,36755027	
1989	6298197195	69,03685053		6,327971209	663000000	20,99832002	17000000
1990	7626099904	53,0784361		12,67618158	684000000	19,46701803	89000000
1991	6616201184	82,92999719		10,39451139	810000000	22,47554382	147000000
1992	7507926703	78,14060137		6,241553905	844000000	24,86555304	350000000
1993	7846358606	64,22198164		20,78457003	636000000	26,37949336	570000000

1994	8633212584	144,7967923		16,52763909	608000000	25,5576818	989000000
1995	13890900577	104,1895754		12,2558838	885000000	27,78362379	195000000
1996	17819437214	116,5397528		16,54217283	722000000	34,12087191	191000000
1997	19746043455	97,79596298		32,18063735	805000000	34,56463265	8000000
1998	20567605577	89,31653727		12,49447151	940000000	27,4619427	-518000000
1999	24432663721	101,9909036		45,13120259	783000000	36,75690776	428000000
2000	23514529802	40,65796037		26,13180963	982000000	37,9072628	489000000
2001	19911331871	90,28219025		24,05540191	3352000000	52,92153474	-79000000
2002	28348029784	27,86845025		14,60341202	1082000000	47,47406463	-16000000
2003	35548509247	14,42043625		22,56699779	1702000000	42,77396054	905000000
2004	37304121645	20,79563056	30	25,0655159	2785000000	41,35989068	1427000000
2005	52493942490	35,80948785	27,6	33,44599854	10031000000	45,62762521	5669000000
2006	63264840947	22,16272689		30,58930328	20185000000	45,7652259	1939000000
2007	76496127757	15,22568324	27	44,28181683	22047000000	49,26285301	5138000000
2008	73674684869	24,85723598	26,3	16,14731012	19504000000	52,54211433	716000000
2009	74933099386	12,74596321	42,9	36,73155905	8411000000	63,01738065	2827000000
2010	85959456530	18,49619523	42,2	41,94278637	9038000000	69,62879132	3468000000
2011	87937258384	15,19775187	60,5	26,04150367	16049000000	69,2611989	-986000000

Ek 1: The Important Data for Criticizing the Financialization In Turkey

Source: World Bank

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