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Regulation Theory and States: The Case of Turkey during the Crisis Periods of 2000s

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ABSTRACT

2007/2008 global crisis has put into agenda a basic debate in the field of public finance related to state intervention. The crisis shows the narrowness and inadequacy of current mainstream and neoclasical approaches related to subjects such as the specific forms of state intervention during the crisis and its origins and causes. None of these approaches bring state intervention into the discipline of public finance as an economic and social reality. Although they provide some insightful discussions on the financial crisis, they remain essentially descriptive.

New developments after the global crisis revealed spectacular alternative views by reinterpreting the forms of state intervention in economic theory as well as its applications in specific countries. In this views the state and its policies are determinated and transfromed socially, politically and historically. In this, we need to know more about the dynamics of of capitalist systems, economic institutions and patterns of production relations in every conjuncture of economic history as well as the operation of financial systems.

Many academics have seen French regulation theory as promising for explaining the role of the state in the capitalist accumulation process while simultaneously offering a convincing analysis of the causes and processes of capitalist crisis. According to the theory, the state plays a definite role in the establishment, rise and crisis of every regime of accumulation (Boyer, 1990:42). The regulation theory sees the role of the state as preventing the depreciation crisis of capital in any regime of accumulation. This paper will interrogated the validity of this hypothesis in the Turkish case since 2000s.

All policy tools of state interventions aim at providing as much capital inflow as possible in order to ensure the extensive continuity of the accumulation regime. In Turkey, the international character of the accumulation process has resulted in the transformation of the labor process since the beginning of 2000s.

This paper argues that this new mode of regulation reveals not only the strengths but also the limits of the persistency of the regime. The main limit is the fiscal constraints of the Turkish state as in every other state of the world -whether developing or developed (fiscal cliff in U.S. and welfare cliff in UK). The other limit is the irrevocable outcome of long term state intervention in the labor force, which makes it impossible to maintain the current accumulation regime.

***Keywords*:** Regulation theory, State intervention, Economic Crisis, Capitalist accumulation, Public Finance.

A. INTRODUCTION

Capitalist world economy is face to face with its third far-reaching crisis following 1929 great depression and 1974-75 recession. In the light of the current crisis, understanding the causes of the crisis beyond orthodox theories is of growing emergency. The global crisis clearly reveals the matter of historical materialist approach as opposite to unhistorical and timeless orthodox theories. At this point, theoretical and historical approaches of Regulation theory with its wide and comprehensive framework, gives new way of thinking to understand the global crisis. Regulation approach analyses the roots in changing forms, mechanisms, institutions, networks, process and norms in the reproduction of capital as a social relation.

In this paper, the capital accumulation process of Turkish capitalism will be analyzed in the framework of regulation theory. Turkish capitalism presents a fruitful research area in three ways (1) relations with capital export of central capitalism as periphery country (2) Turkish capitalism based on important phase of development in relation to capitalist development and capital accumulation (3) Turkish capitalism experiences the phase of capital export.

According to the regulation theory where capital accumulation based mainly on specific stages of capitalist development, Turkish capitalism can be classified as four stage after 1960s. During 1960s, under the first five year plan of 1962, oligopolistic family groups were dominant in production relations with an environment of high import tariffs and highly protected domestic markets. Inputs to private industry were provided by state enterprises at subsidized prices. This regime started to contagient with accelerating inflation after 1972. Turkish capitalism achieved again an environment of profitable accumulation by adopting export-led growth strategies post-1980. With this strategy, Turkish capitalism which was characterized by widely domestic market relations and accumulation strategies based on domestic demand before 1980s, has turned dramatically to the world market. Over this period, both the exchange rate and direct export subsidies acted as main instruments for the promotion of exports and pursuit of macroeconomic stability. This period was also characterized by a suppression of wage incomes via hostile measures against organized labor. This classic mode of surplus creation reached its economic and political limits by 1988. Financial liberalization of 1989 was a new phase preventing stagflationary macro environment of 1988. Capital inflows enabled on the one hand, the financing of rising public sector expenditures and also provided relief on inflationary pressures by cheapening import costs. (Boratav et al., 2000). At the end of the 1990s, the slow down in productivity growth and decline of profit rates put the new accumulation regime into agenda in where Turkish capitalism became highly integrated into world capitalism during the 2000s. This paper focuses mainly on the period of 2000s, prior periods will be analyzed just comparatively.

Table 1: Periodization of development the main charactaristics of Accumulation Regime in Turkey

Period	Major form	Main characteristics	Contradictions of accumulation regime
1961-1979	State-led	Plannedeconomy-domestic demand Oligopolistic conglomerate family groups dominant, input provided by state enterprises, protected markets	Accelarating inflation after 1972
1980-1989	Export-led	Accumulation rejime based on foreign demand Liberalization trade relations State suppres of labour market	Accelerating public deficit
1990-1999	Finance-led	Liberalizations Money relations Capital market and credit relations Increase in real wage after 1989 Underground production and employment	Accelarating inflation and public deficit
2000s-	Finance-led	Flexibility in production process by outsourcing, internationalizations of production and capital export	Accelerating trade deficit

B. ACCUMULATION REGIME AND ESSENTIAL ELEMENTS OF THE MODE OF REGULATION OF TURKISH CAPITALISM DURING 2000S

Turkey experienced a severe economic and political crisis in November 2000 and in February 2001. Following the crises, Turkey adopted a new stability program called "Program for Transition to a Strong Economy" (PTSE) with financial assistance of IMF. The program consisted of many structural reforms (e.g. on banking sector and public sector), and orthodox macroeconmic strategies such as tight money policy, a contractionary fiscal policy, reducing subsidies to agriculture, privatization, and in general reducinge the role of public sector in the economy. This strategy was designed to restructure the economic, political and social life in many dimensions as a whole.

Institutional forms that define the main characters of the mode of production (Boyer, 1990: 37-41) over 2000s in Turkish capitalism will be evaluated in the section below.

B.1. MONEY AND CREDIT RELATIONS

One of the main pillars of Turkish capitalism in post-crisis characteristics of growth was a contractionary monetary policy through an independent central bank that exclusively aims at price stability via inflation targeting (Yeldan, 2007:4). Also, the fundamental reforms in the banking sector on which Turkish financial sector mainly based on, provided stability and reduced risk perception and thus contributed to growth rates by stimulating private consumption and fixed investment.

The restructuring in the banking sector and the fiscal consolidation of the post-crisis period has increased credit to private sector-to-GDP ratio since 2002[1]. The consumer credit volume in

[1] Though Turkish financial markets are still shallow relative to the other countries. For example, in 2006, the credit to private sector to GDP ratio was 94% in France, 95% in South Korea and 163.9 in the UK, whereas it was 29 % in Turkey. Financial Structure Dataset of the World Bank.

particular expanded significantly which played an important role in boosting private consumption demand (Özatay, 2008).

The credit expansion and rapid growth was mainly driven by a massive capital inflows originating from in part a high rates of return offered domestically and in part abundant liquidity in international financial markets.

B.2. WAGE AND LABOR RELATIONS

As in many others countries during 1980s, a significant wedge is created among the real wage earnings and real labor productivity by way of intensified exploitation of labor. The real wage contracted severely after the 2001 crisis and this downward trend was maintained throughout 2002 and 2003 (Yeldan, 2007:19). However, by the beginning of the 2000s, the configurations of capital-labor relations based on the type of means of production shows tremendous transformations in Turkey.

Changing relation of production in Agriculture

The process in Turkey during 2000s represent a move away from a Fordist regime of accumulation, in which state support policies aimed to increase the welfare of rural communities through various agricultural support mechanism. The labor-intensive production of agriculture (sugarbeets, cotton, tobaco, crops etc.) were supported by state policies through various institutions before the economic restructuring of agriculture in 2000s. However, in this new regime farmers became raw-material suppliers for agrifood corporations over market dynamics. But, small-scale farmers, who own one-third of the arable land in Turkey, manage to participate in industrial crops that developed within the post-Fordist regime as a way of increasing their income. One of the determining factor for this development is the availibility of financial resources for them. Borlu (2015) illustrates how expanding production credits via financialization effects the participation of small-scale farmers in an environment of changing relations of production.

Changing relation of production in Industry

During 2000s while Turkish monopol capital in international scale was stronger than before, the others (smal and middle-sized in scale) reorganized in their production in ralated to production sectors and organization of work.

Large enterprises were able to maintain capital accumulation by canalizing the production scale to abroad because of insufficient profit domestically. These firms benefited from establishing plants in various sectors in foreign markets (especially Northern Europe and East Asia after the 2001 crisis and Middle East, Africa and BRIC countries after the global crisis).

Turkish largest conglomerates (e.g. Koç Group), who export capital, became a united whole with foreign capital by the ways of direct or partnership consortium. While foreign investments in Turkish large conglomerates was just 113 million dolars in 1984, its peaked as 660 000 million dolars between 1984-2009. Particularly, Turkish monopols in construction sector became the third of the world after USA and China.

Turkish large size manufacturing firm's growth strategies aimed at extending current product lines with related products through enabling standardization and technology sharing. Especially, firms mostly focused on enabling integration with the EU market by entry mode strategy. Turkish manufacturing firms favoured equity based entry modes (e.g.wholly owned subsidiary or equity Joint Venture) (Demirbağ, Tatoğlu, 2008:740). Smiliarly, EU countries accounted for approximately 57 percent of all outward FDI in Turkey between 2001-2006.

While large capital groups turned their investment abroad, at the same time, they transfer the part of their production process in which they are not competitive(outsourcing) to small enterprises. By the beginning of the 2000s, Small and Medium Sized Enterprises (SMEs/ Anatolia Capital), have become the main element in the organization work and workplace in the manufacturing sector. While 52.8% of SMEs used labor-intensive technologies and degraded machine and production factors in producing traditional sectors like textile, furniture, and food, the rest of the SMEs can be described as competitive entrepreneur, in the international markets and uses elastic production technicques. These new enterprises have become alternative to the Fordist-Taylorist mode. Particularly, In free-zone region generally uses lean production organization which is attributed to high intensification of work.

Analyzing the pattern of trade shows striking transformations during the 2000s. As a result of the competition from low wage countries, the textile, clothing and leather industries faced difficulties in dimension of export prices, wage per hour and productivity (declining sectors). However, sectors including electronics, industrial machinery, steel and car manufacturing did well along the three determinants of profitability (higly-competitive sectors) (Gönenç, Yılmaz, 2007:12)

In the fact that the proportion of the traditional sector like textile, clothing and leather in the manufacturing industry production is decreasing (from 34.2% in 2002 to 22.2% in 2007), the proportion of the motor land vehicle, other means of transport, and machine manufacturing is rising. As a result of this, the production process in the manufacturing industry has transformed to less labor-intensive structures but uses more raw material and equipment most of which imported from foreign countries (Saygılı et al., 2010:60). As a result of this, every increment in production and export has brought forth more increment in volume of import. The increase in imported input using in the manufacture production and the decreasing rate of foreign trade, trade deficit and current account deficit have became the major problem in maintaining the accumulation regime.

Moreover, in the whole manufacturing industry, sectors which have the highest technological score, has the lowest score in production performance like Radio, TV and etx., and office, accounting and information process machines. This shows the low level in producing technology and technology dependence. Also, the production of value-added in manufacturing sector decreased during the 2000s. The rate of value-added decreased 22 percent in manufacturing industry between 2003 to 2008 (Küçükkiremitçi, 2010).

B.3. THE ARTICULATION MODE OF THE INTERNATIONAL REGIME

The articulation of the Turkish capitalism into international regime has been accelerated during the 2000s by capital inflows and outflows.

Turkish government had strong incentives to pursue pro-capital policies for attracting foreign capital to finance the credit-financed, domestic demand-driven growth. Also, during the 2000s, the widening current account deficit, which rose from 2.5 percent of GDP in 2003 to 9.9 percent of GDP in 2011, rendered the Turkish economy quite vulnerable to shifts in global market sentiments and Turkish government pursued orthodox monetary/fiscal and proto-capital policies to ensure the ongoing of capital flows.

Therefore, Turkish government dismantled administrative barriers to investment, reduced the corporate tax rate, and improved the overall legal protection of foreign investors. The new foreign direct investment regime included important incentives. As a result of these pro-capital policies as well as a favorable economic and political environment, foreign direct investment to Turkey reached to 51.6 billion dollars between 2005 and 2007 (Aytaç, et. al : 2014:50)

As a mentioned above, at the beginning of the 2000s. Turkish monopol capital put their agenda on foreign investment in the unsuit investment and low profit environment.

The articulation of the international regime through trade intensified during the 2000s. However, Turkish authorities allowed the Turkish lira to appreciate by implementing an anti-inflationary policy of strong currency via high real interest rates. This appreciation in turn contributed to the increase in the share of imported inputs in industrial production while raising the current account deficit. The rate of imports covered by export has decreased sparklingly. This is the other important contradiction of capital accumulation.

B.4. FORMS OF STATE INTERVENTION

According to the regulation theory, the role of the state keep the mode of capitalist production alive by providing and reproducing its basic relations. As seen in many crises after 1990, one of the main principle of public finance is the socialization of the cost of financial crisis and recesions by budget. Turkey's 2001 banking crisis and state-led rescue socialized 47.2 billion USA dolars (or over 30 percent of 2002 GDP).

After the cises, Turkish government firstly amended the laws and regulations in establishing markets for private sectors and forming autonomous regulatory institutions for the management of the key sector of the economy.

Turkish government committed itself to fiscal discipline and tight monetary policies set by IMF's structural adjlustment since 1998. Especially after 2001 crisis, according to this commitment the public sector's primary surplus averaged 4.7 pecent of GDP over the period of 2003-07. Achievement of the fiscal contraction under severe entrenchment of public non-interest expenditure. Austerity policies targeted social security, education and health and commodified these services through privatization. Thus, the government has provided new areas for capital accumulation by contracting out education and health services, buying hospitals from private sector. More importantly, new laws and rules have created new space such as the energy market, water market, underground water, forest land, rangeland, and 2B lands for the private sector.

One of the controversial sphere of state strategies is transfer the public securities and real property to private sector through privatization. While the revenue from privatization was only 4.5 million dollars between 1984 and 2000, it has reached 43.2 billion dolar between January 2002 and June 2013. The main concern of this widespread privatizations is its under-value in same cases and thus allocations resources to private sector by "primitive accumulation.

In the fact of earthquake that Turkey often face, the process of renewal in urban infrastructure became a new capital accumulation strategy for public and private construction sectors. The capitalist production in the same time causes the reproduction of the rural and urban forms.

The Turkish Housing Development Administration (TOKİ), which is the official leader institution of Turkey in terms of dealing with housing and settlement issues, targets the group of low and middle-income families, who are not able to own a housing unit within the existing market conditions of Turkey. TOKİ inherent actor in the process of housing production beside providing the general condition of production in the construction sector in Turkey. TOKİ participates in the production process with local government for the production of the housing and the allocation of public land and estate to building houses by projects like urban renewal. These projects target the reproduction of already existing houses and the renewal of building provided that they bring maximum income. TOKİ constructed 596.852 housing units between 2003-2013 and gave fulfillment credit to 56.000 housing units since 2003 (Toki, 2013).

Rapid rates of growth post-2001 era were accomponied by high rates of unemployment and low participation rates. Domestic industry was forced toward adopting increasingly capital intensive, foreign technologies with adverse consequences on demestic employment. (Yeldan, 2007:4).

In the period since 2002, resource allocation has been realized for low income owners as education, health and social services as well as social grants in a formal or informal ways. The main reason for this allocation is to improve the qualification of the labour force due to restructuring of industry, increasing consumer capacity of low income owner and preventing any deterioration in income distribution of worker who have lost income during 2000s. Related expenditures helps to the legitimize of the system by limiting economic inequalities beside sustaining capital accumulation.

B.5. CONCLUDING OBSERVATION

The post-2001 era, Turkish capitalism has become highly dependent on a growth path based on capital inflows. Reliance on capital inflows for financing import and domestic demand is vital for working the regime of capital accumulation. The important role of finance sector for the rate of growth cause to growth credit relations and financialization of the economy deeply. The regulations forms that became prevalent the credit relations and financialization has provided profitable environment for accumulation regime in related to large and small and middle capitals. One of the peculiarity of this period is the qualitatives and quantitatives transformations in industrial capital which occur in efective involvement of finance markets. However, the sustainability of this regime requires effective control and regulation on preventing price bubbles and increments of excessive credit.

Although changes in the pattern of export industry from labor-intensive traditional sectors to the manufacture of production means (from low-value added to middle or high value added), the export growth is not adequate in quantity and display a high degree import dependence. Thus, one of the main contradictions of the accumulation regime is a rise of external dependence in industrial inputs.

Proto-capital policies and relative neglect of labor's demands (labour act ext.) and concerns has been remarkable in organization of work especially intensification of work and flexibility during 2000s. The gap between wage and productivity increased in this period, though low earners partially recoverd purchasing power due to low inflation. Although the mechanisms of social grant and welfare expenditure to low incomes has increased during 2000s, the adequency and continuity of these mechanism doubtable because of not based on formel civil rights rather than based on informel security network.

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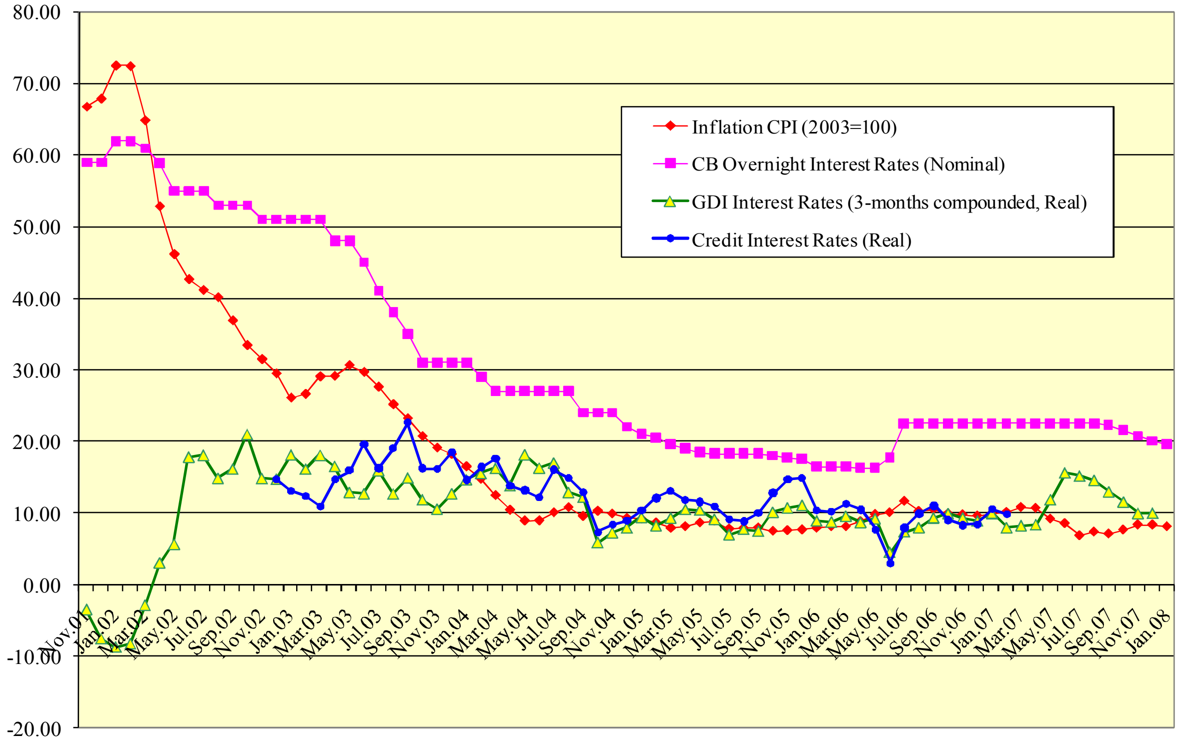
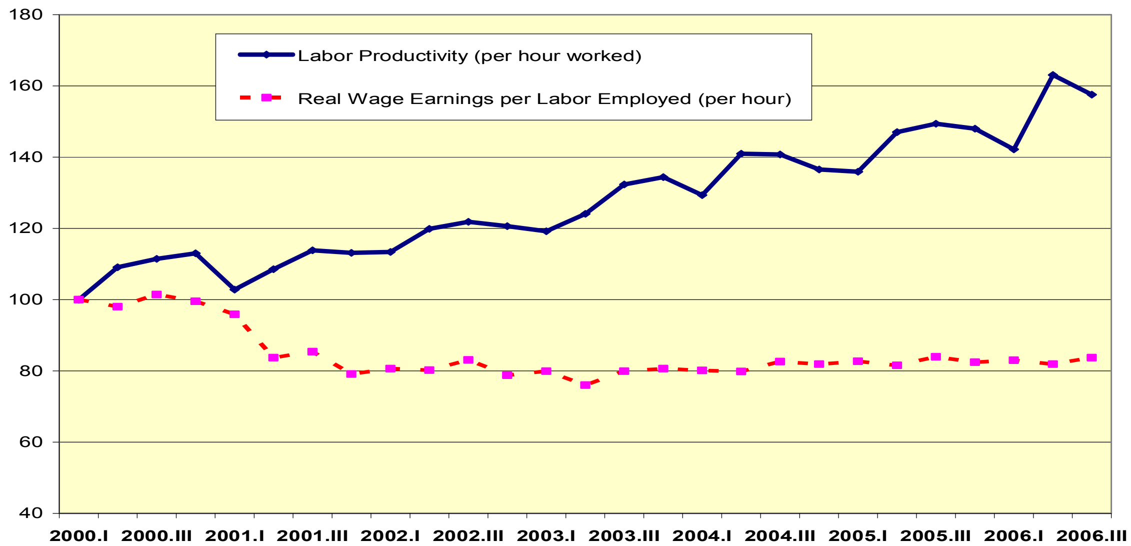
Figure 1: Turkey: Inflation and Interest Rates



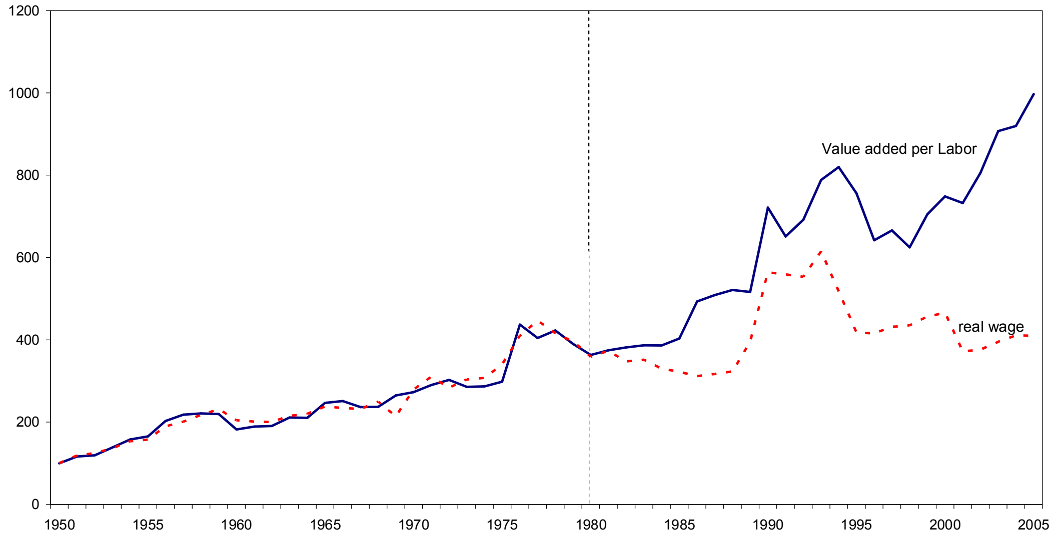
Source: TURKSTAT, (Yeldan, 2007)

Figure 2: Labor Productivity Real Wages



Source: TURKSTAT, (Yeldan, 2007)

Figure 3: Labor Productivity and Real Wages in Turkish Manufacturing (1950-2005)



Source: TURKSTAT, Annual Manufacturing Surveys, (Yeldan, 2007)