

CRISES FOR WHOM? OPPORTUNITIES FOR WHAT?

A brief look at some outcomes of the 2000-01 financial crises in Turkey

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Abstract

The phenomenal financial expansion of the last decades has been characterised by an exacerbation of systemic instability and an increase in the frequency of financial crises. These crises are often seen as breakdowns in the normal governance of the system, which not only impede its reproduction, but may even threaten its existence. As such, many efforts are devoted to finding ways to stabilise the system and avert crises when possible, or mitigate their effects otherwise.

By contrast, we view financial crises as being not only an indissociable component of the current financial system, rather than mere undesirable side-effects, but more importantly as one of the main ways whereby the reproduction and extension of the capitalist system are effected. Financial crashes in 'developing countries' forces them open, both by rendering domestic firms vulnerable to attacks and take-overs from abroad, and by reinforcing the states' tributary position vis-à-vis global finance capital. Similarly, the burden of the crises is not shared equally by all classes; on the contrary crises change the balance of class power. In this way, the capitalist system is able to extend its tentacles deeper into 'the periphery', the destinies of which are then predicated further on global economic movements. Financial crises are thus seen as having contradictory effects for global finance capital: while some of its elements are undeniably hurt, the system as a whole may benefit from their occurrence through the systemic expansion it allows.

The paper examines this thesis in the context of the Turkish crisis of 2000-2001. The crisis is found to fit the pattern described above, to the extent that it raises serious questions concerning the interest of different international actors, often perceived as attempting to stabilise international capital markets, in preventing the crisis.

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“Many years ago former president of General Motors and secretary of defence Charles E. Wilson’s famous remark to the effect that ‘What’s good for General Motors is good for the country’ became the symbol of a particular view of American capitalism. The IMF often seems to have a similar view - ‘what the financial community views as good for the global economy is good for the global economy and should be done’”

(Stiglitz 2002: 195).

I. INTRODUCTION

There has been much written on the financial crisis Turkey went through in 2000-01. This literature has been mostly centred on an attempt to elucidate the underlying determinants of the crisis. While mainstream analyses of the crisis showed the political mistakes as the main reason of the crisis and argued for more liberalization as a solution, heterodox analyses, on the contrary, contended that the real causes of the crisis were the unsustainable IMF-directed policies and called for a departure from these policies.¹

In this paper we offer to shift the debate somewhat and look at the crisis in terms of its consequences rather than its roots. As a point of entry, we take the general perspective that financial crises are an integral part of the current ‘neoliberal’ capitalist system, an important channel through which its extension and reproduction are effected, rather than undesirable side-effects.² As such, they not only have a significant influence on the domestic class balances but they also impact on the position of international financial capital vis-à-vis the country beset by the crisis. There are clearly two distinct level at which this argument can be investigated, once again linked to causes and consequences. In other words, is the current neo-liberal regime conducive to financial crises? and once one erupts, is it beneficial or deleterious for the system? It is this second enquiry which occupies us for the most part in our study of the 2000-01 Turkish financial crisis.

Through a close study of the impacts of the crisis on different groups of actors, we observe that the 2000-01 financial crisis in Turkey benefited international capital at the expense of domestic capital and other domestic classes in general. International capital gained from the crisis both through the large wealth transfers it was able to secure and an increase of its hold over the Turkish economy. In addition, there was also a shift in the balance of power between labour and the capitalist class in general as a result of the crisis, to the advantage of the latter.

We go further than a simple categorisation of winners and losers, however, and show that the policy environment, in particular the IMF-sponsored stabilisation plan, was actually designed in such a way as to promote such an outcome. We argue that the economic policies in place at the time of the crisis were not only designed to the advantage of international and domestic capital under ‘normal’ circumstances, but also in such a way as to insure that these entities are the prime beneficiaries in the event of a crisis. There are two steps to this argument: Design and intentionality. The former is of course easier to show, since it only involves an analysis of the influence of a given policy structure on economic outcomes. Intentionality is trickier, since the danger of sliding in conspiratorial theories is always present. In this paper, we nonetheless try to address both parts of the argument, first through an analysis of the influence of the policy environment on the distributive outcomes of the crisis and then through the layout of an interest-based theory to deal with the issue of intentionality. Briefly put, we conclude that the neo-liberal policies promoted by the IMF are designed in line with the interest of international capital and their domestic allies for both ‘normal’ times and situations of crisis, so that although crises may not be provoked or engineered, they benefit international capital when they occur.

The paper is organized as follows. In the next section, we provide a brief review of the events that led to the financial crisis of 2001 in Turkey as well as a succinct description of the policy environment in place when it happened. We explore the distributive outcomes of the crisis in the next section and present empirical evidence in support of our theoretical argument. As we develop our argument in the third section, we also link different consequences of the crisis with particular policies enacted both prior and after the crisis to further illustrate the relation between the policies and outcomes. We explore the issue of intentionality in the fourth section. Finally, in the last section we discuss the importance and implications of our findings as well as further research topics.

II. THE 2000-01 TURKISH FINANCIAL CRISIS IN PERSPECTIVE

The 1990s were unstable times for the Turkish economy. After the complete capital account liberalization in 1989, the growth performance of the Turkish economy was sluggish with two minor and two major recessions. In the 1990s, the economy showed a “boom-bust” growth performance with a relatively low average growth rate and high volatility.³ Growth

oscillated between 9.3 % of GDP and -5.5%, with an alternation of good and bad years, inflation lay above 60% for the entire decade and the government ran large budget deficits (Akyüz and Boratav (2002)). The liberalization of the capital account in 1989, far from easing government borrowing, forced it to offer higher spreads compared to safer dollar assets which the liberalization rendered freely available. Real interest rates on the debt soared and a large portion of the activities of private banks came to be concentrated around transactions in government securities, in response to the arbitrage opportunities offered by the high rates on securities compared to foreign borrowing and domestic deposits (Akyüz and Boratav (2002)). This rise in interest rates put further pressure on the government, pushing it to borrow increasing amounts only to meet interest payments, which reached 75% of tax revenues by the end of the decade. Finally, the combination of high interest and inflation rates and an open capital account generated a high degree of volatility in Turkish financial markets, which like the rest of the economy went through booms and busts throughout the decade, experiencing in particular an important crisis in 1994.

It was in this context that in 1998 Turkey started cooperating with the IMF to design a program whose main objective was the stabilization of the economy through a reduction of inflation, which was standing above 80% at the time (IMF (1998)). Large budget deficits⁴ were deemed to be at the heart of the inflationary process, so an important part of the program revolved around different strategies of debt reduction, notably an ambitious privatisation scheme. To this end, a constitutional amendment to allow international arbitration for contracts between the state and foreign investors was even passed to facilitate foreign ownership (IMF (1999a)), in an effort to speed up the process. In addition, the government of Turkey also pledged to keep capital flows free from any restrictions and not to intensify trade restrictions (IMF (1999a, b)). At the same time, the government announced it would try to curtail spending via a reduction in labour costs and a reform of social programs. Wages of public sector employees were to be frozen in real terms, while the financing of important social programs such as social security was cut and their accessibility reduced (IMF (1999b)).

In contrast with the efforts to attain budgetary balance, however, banking laws were amended to force the recovery by the Savings Deposits Insurance Fund (SDIF) of any insolvent banks for restructuring or liquidation, while the provision of liquidity by the same

institution to any bank not under its full control was forbidden (IMF (1999b)). On the eve of the financial crisis, following some financial disruptions in November 2000, the SDIF was given full authority to borrow as needed from the treasury and full protection was even granted to the creditors and depositors of domestic deposit-taking banks (IMF (2000c)), in an alleged effort to restore confidence in the program. These two measures would eventually prove very costly, swamping any achievement made on the fiscal front, the large privatisation proceeds included. The asymmetry in the spending allowed is quite stark: While social spending and the wages of public employees were to be contained, investors were set to be fully reimbursed for any loss incurred. We explore this issue further in the next section.

The implementation of the stabilisation program began in December 1999. Centred on a crawling peg designed to move with expected inflation, the program rapidly experienced some strains as price increases outpaced expectations. While they acknowledged this trend, both government officials and IMF staff members proclaimed they were satisfied with the progress of the program as late as the end of June 2000, which is understandable since virtually every other target was met (IMF 2000a, b). From the start of the program until November 2000, Turkey was also winning praise from international financial analysts and the IMF for its stabilization policies. Nonetheless, the currency kept appreciating in real terms and by early Fall there started to be some signs of trouble, which eventually culminated in a flight from the Turkish currency in November. The last week of November alone, witnessed a 5.3\$ billions of outflow as a result of short-term speculative operations, causing a severe liquidity shortage in domestic financial markets and sending overnight interest rates as high as 2,000 percent. The outward-bound capital flow was halted and devaluation fears allayed only after the IMF granted US\$7.5 billions of additional support. The respite was short-lived, however.

A few months later, in February 2001, a new wave of capital outflows was triggered by the public disclosure of a dispute between the President and the Prime Minister. Jittery investors pulled US\$5 billions out of Turkey on February 19th alone. The foreign reserves of the central bank, standing at less than US\$20 billions, were at a risk of being depleted. As policymakers attempted to maintain the managed exchange rate regime in the financial turmoil, overnight interest rates soared to several thousand percent, which impeded the ability of the government to raise money. Eventually, the devaluation of the Turkish lira

seemed inevitable. The abandonment of the pegged exchange rate system caused an immediate and sharp devaluation of about 30 percent against the US dollar.⁵

When the dust settled after the February crisis, inflation was back where it was before the stabilisation program and even higher for a while, government debt as a percentage of GDP had nearly doubled and interest rates were still problematic (Akyüz and Boratav (2002)). This is a rather poor track record for a program and which was designed to reduce inflation, real interest rates and government debt and was implemented merely 15 months before. But a full-scale assessment of the splendour and misery of the IMF program is beyond the scope of the present article. What is of note, however, is that this crisis happened in the context of an absence of any controls on capital flows, a privatisation drive, tight fiscal policies, a state commitment to takeover any bank becoming insolvent, as well as an implicit guarantee on the loans made to domestic banks. This policy environment shaped the outcome of the crisis to a great extent, helping in our view international capital to both extend its influence in Turkey and receive an important transfer of resources. Some ways in which this happened are detailed in the next section.

III. OUTCOMES OF THE CRISIS

Financial crises generate a significant amount of suffering and economic disorganisation in the countries they affect. At the same time, however, they could also be the occasion of huge wealth transfers and constitute golden opportunities for anybody with the wherewithal to take advantage of the disarray left in their wake. These two aspects of the story lead us to investigate the distributive impacts of the 2000-01 financial crisis in Turkey in an effort not only to identify winners and losers, but also the ways in which gains and losses are incurred. In doing so, we distinguish between an international level, where we assess the consequence of the crisis on international capitalists vis-à-vis the Turkish economy, and a domestic scene where we look at how the burden of adjustment was shared amongst different groups in society and who might have actually benefited from it.

The picture that emerges at the international level is one whereby international capitalists are seen as gaining largely from the crisis at the expense of the Turkish economy in two ways. First, they are able to secure large wealth transfers both during and after the

crisis. While the crisis unfolds, the funds expended in an effort to support the peg represent direct transfers to international capitalists, insofar as the Turkish currency can be bought at a bargain from the central bank later on. The economic disruption left in the wake of the crisis also allow international capitalists to capture otherwise viable firms currently under strains and to secure from these assets a flow of profits. Finally, the large foreign debt incurred by the government during the crisis also generates an on-going flow of interest payments flowing out of the country. These last two transfers also represent ways in which international capital is able to extend its reach into the Turkish economy, which is the second manner in which it benefits from the crisis. The capture of viable assets coupled with the increased reliance on foreign debt imply both a larger share of the Turkish economy in the hands of international capital and a greater subservience of the government with respect to the entities from which it borrowed, notably the IMF.

There is no unequivocal winner on the domestic scene, as all groups in society are hit in some respect. However, the burden of adjustment appears to have been shared rather unequally, largely to the detriment of workers and the beneficiaries of social programs. Moreover, some sectors were favoured compared to others with regards to the distribution of resources for alleviating the impact of the crisis, notably bank creditors, while the taxation system through which these resources were collected became increasingly regressive. All in all, therefore, we think that the crisis shifted the balance power in favour of capital and the affluent.

The remainder of the section, which is divided between the international and the domestic scenes, is devoted to a detailed study of these different consequences of the crisis.

III.1 The International Scene

International financial capital emerged as an undisputable winner from the 2000-01 financial crisis in Turkey. In terms of wealth, laws were rapidly put in place when the stabilisation program started experiencing troubles in November 2000 which considerably reduced the risk borne by international capital. Specifically, the full guarantee of loans made to Turkish banks combined with the necessity for the SDIF to takeover any insolvent bank (IMF (1999c, 2000c)) amounted to a nationalisation of the debt of all financial institutions risking

unable to service it. Consequently, not only did these loans become risk free, but the entire cost of the adjustment in domestic financial markets was thrown on the Turkish population. In other words, the only way international financial capital could lose was via its portfolio and direct investments. We show the overall gain in these sectors below.

At the same time, international financial capital laid on the receiving end of massive wealth transfers and was also able to extend its tentacles deeper into the Turkish economy and increase its control over it. This increased subservience of the Turkish economy was secured both through a capture of productive assets at bargain prices and an increase in the foreign indebtedness of both public and private institutions. These two means also insure a steady flow of wealth to the hands of international capitalists in the forms of profits and interest payments. Added to the money expended in defence of the peg, the nationalisation of the foreign debt of some Turkish private banks and the resources that have to be set aside to ward off the possibility of future crisis, they constitute a large drain of resources from the Turkish economy.

The extension of the reach of international financial capital and the massive transfer of resources are linked in ways that make it difficult to isolate one theme from the other. Indeed, an increase in the control of international financial capital on the Turkish economy allows it to appropriate some of its resources more readily, while the accumulation process within financial capitalist spheres give it more wherewithal to increase this control further. As such, we elect to present different facets of the relationship between international financial capital and the Turkish economy without classify them into those two categories. Nevertheless, both types of consequences should be borne in mind while we proceed with our description.

Increase in foreign debt

One of the main instruments of the IMF stabilization program was a crawling peg designed such that the currency would be devalued in line with targeted inflation. As inflation targets proved elusive, the Turkish Lira became increasingly overvalued during the year 2000 (IMF (2000a, c). As a result, there was an important increase in domestic interest rates in terms of dollars and Turkish banks started borrowing extensively from abroad (IMF (2000b, c),

Akyuz and Boratav (2002)). By the end of 2000, the total external debt was standing at 59% of GDP, from 47% only two years before, despite attempts by the state to restrict external borrowing, notably through high reserve requirements for external positions exceeding a preset ceiling (see Table 2).

This pattern of heavy foreign borrowing in search of short-term arbitrage gains fragilised the Turkish financial system. Troubles started brewing in November 2000 and there was eventually a flight from the currency, but the grant by the IMF of a loan to help support the Turkish lira calmed the situation somewhat. The underlying fragility had not disappeared, however, and a full fledged financial crisis erupted in February 2001, putting a number of banking institutions under serious strains. Since the banking laws had been amended as part of the stabilisation program to prevent the government to provide liquidity to distressed banks, it had to wait until the situation became dire enough for a given institution that it became technically insolvent to recover the financial institution and administer its assets and liabilities (IMF 1999b). Moreover, a law had been promulgated soon after the events of November to grant a full protection for the creditors and depositors of deposit-taking banks (IMF 2000c). As a result of these two legal requirements, the Turkish government was forced to take-over several troubled banking institutions and assume the entirety of their liabilities. The prevalent pattern of foreign indebtedness meant that a large portion of the liabilities of these institutions was denominated in dollars, so that the government had to borrow extensively abroad to honour its commitments. According to a report by the Banking Regulation and Supervision Agency of Turkey, the government had to spend 47.2 billion dollars to bail out the Turkish financial system, of which 25.3 were devoted to private banks.

The devaluation itself was also very costly to the government, while it offered an interesting arbitrage opportunity for investors who bid against the currency. In one day alone, on the eve of the devaluation of the currency, the government sold 5 billion dollars to banks at the lower exchange rate. While the government was fighting to maintain the peg, interest rose to triple digits, increasing further the implicit and explicit liabilities of the government and the strain on private institutions. Overall, the crisis resulted in a borrowing by the government of 18% of GDP in 2001 and an increase in foreign government liabilities

in terms of GDP of about 66% for the same year, as shown in Table 2. A large portion of these funds came from the IMF, as can be seen in Figure 1.

Such a large increase in foreign indebtedness ties up a large portion of domestic resources for debt repayment and interest charges. Table 2, which shows the total level of interest charges in terms of GDP, and Figures 1, 2 11 and 12 give an idea of the level and duration of the commitment. In itself, this already constitutes an important leverage for the IMF and other important creditors. What is more, though, is that this money was not freely lent. Concessions in the form of austerity measures, public divestiture of its productive assets and guarantees for foreign investors, to name but a few, were extracted by the IMF in exchange of the loans it made in 2000, following the November troubles, and during the 2001 crisis (Akyüz and Boratav (2002), Cizre and Yeldan (2002), IMF (2000c, 2001a) and Yeldan (2002)). This requirement to adopt policies in line with the Washington consensus in times of crisis is not unique to Turkey; it had been imposed to several Asian countries a few years before, for example (Wade (1998, 2000), Wade and Veneroso (1998)).

The policy concessions extracted by the IMF in times of crisis are illustrative of how it had used its leverage in the past and would do so subsequently. The IMF made it clear after the crisis that the government had to pass certain so-called 'structural reform' laws within a certain span of time in order to receive further much needed help. These structural reforms essentially consisted of privatizations in key sectors such as telecommunications and deregulation in others such as natural gas, civil aviation, banking, petroleum, sugar, tobacco and so on. One of the main aims of this deregulation was to open up the targeted sectors to international ownership and competition. This was accompanied by the ratification of a new law on international arbitration to create more favourable environment for foreign investors. Finally, independence was also granted to the central bank in the months following the February crisis (IMF (2001a, b, c)). In this way, the 2000-01 Turkish financial crisis enabled the IMF to advance its agenda of reforms along the lines of the Washington consensus, and thus increase the control exerted by international financial capital on the country.

Briefly put, the 2000-01 crisis pushed the country and its government in a situation of debt peonage.⁶ This situation is perhaps all the more frustrating that much of these debts were in fact incurred to reimburse foreign banks through the bail out of the domestic institutions that had borrowed from them, shifting the entire cost of these investment

decisions on the Turkish population at large. In other words, the loss of autonomy of the Turkish government, as well as the large interest burden, effectively came in large part in exchange for a bail out of First-world bankers.⁷ It would be hard for international financial capitalists to ask for a better deal.

Foreign Direct Investment and Financial revenues

The fragilisation of the economy concomitant with a financial crisis creates an opportunity for international capital to increase its control over it. Otherwise solvent companies may experience temporary problems and be forced to liquidate some of their assets at relatively low prices. Similarly, the disarray in domestic financial markets may put local companies at a disadvantage compared to the affiliates of multinationals, whose relationship with the parent firm gives them a better and more reliable access to credit⁸. Consequently, be it by direct acquisition of assets or the expansion of the activities of existing affiliates, international capital could seize the occasion offered by the financial crisis to take a greater hold of the economy. This has in fact occurred many times in the past and the process is well documented and theorised (Duménil and Lévy (2003), Harvey (2003), Wade and Veneroso (1998)).

Investment patterns reveal that this undoubtedly happened in Turkey during the 2000-01 financial crisis and its aftermath. Net foreign direct investment (FDI) reached unprecedented level in 2001, more than 3.5 times its highest level in the last two decades, while quickly dropping again for the next two years (Figure 3).⁹ There is also evidence that this investment was not used to build new infrastructures, but was rather channelled to existing facilities and assets (Figure 4). A comparison of Figures 3 and 4 suggest that roughly 40% of total FDI actually consisted of mergers and acquisitions. However, while the stabilisation program had an important privatisation component, the Turkish government frequently asserted its will to divest itself of its assets, even through the crisis period, and the legal framework was amended in 2001 to facilitate the purchase of public enterprises by foreigners (IMF (2001a)), it seems that the sale of government assets did not play a major role in attracting FDI, at least not directly. Most of the privatisation took place in 1998 and 2000, before the troubles began, and in 2004, well after the crisis (Figure 5). Some of the financial assets recuperated by the SDIF, however, were sold back to foreign investors, notably

Demirbank, one of the large private banks in Turkey, which was acquired by HSBC in 2001. Moreover, the legal changes designed to facilitate foreign ownership, originally officially intended to help the privatisation efforts, may have made it easier for foreign investors to acquire private Turkish firms.

The investment inflow of 2001 soon paid off in the form of repatriated profits, which increased to record levels in the last two years and show no sign of subsiding (Figure 6), while portfolio income reached unparalleled heights since the crisis, (Figure 7).¹⁰ These two measures suggest that there were plenty of profitable investment opportunities that were seized by international capital at the time of the 2000-01 financial crisis.¹¹ By taking these opportunities, international capital was able not only to increase its clout over the Turkish economy, both by acquiring existing firms and grabbing market shares, but also to secure a large wealth transfer for the years to come in the form of repatriated profits and portfolio income.

Reserve accumulation as precautionary cost of crisis

Beyond these direct costs, reserves accumulated to ward off future financial troubles represent a more insidious drain on the country's resources. The mere possibility that there could be another financial crisis imposes *precautionary costs* on the Turkish economy in the form of international reserves. Before the fact, attempts to prevent the currency from depreciating may imply a major expense of reserves, which translate into direct capital losses if these efforts fail. Since the liberalisation of the capital account in the late 1980s, reserves in Turkey have been on a steep upward trend, jumping up after each crisis, perhaps as a result of the trauma caused by the crises (Figures 8 and 9). These reserves, which now account for a full **Z28%** of Turkish public foreign debt, represent net resource drains on the Turkish economy in that while they finance the governments whose currency is employed as reserve, they are lost to Turkey. This idle insurance policy can thus be viewed as a fee paid to the emitters of the reserve currencies in exchange for free capital flows.¹²

III.2 Change in domestic distribution

The 2000-01 financial crisis in Turkey bore a heavy burden of adjustment. Economic activity slowed down considerably, the functioning of the financial system was disrupted and the crisis itself proved very onerous for the government (Table 1). While the large majority of the population was hit in some ways, the costs were not shared equally. In fact, just like the crisis was an occasion for international capital to increase its control over the Turkish economy and secure massive resource transfers, it also turned into an opportunity for domestic capitalist to turn the balance of power within Turkey in their favour. This is revealed in particular in the evolution of real wages and the labour share, but also in taxation and spending patterns.

On the spending front, the full guarantee granted to the creditors and depositors of domestic banks, which led to the 47.2 billion bailout of the financial system mentioned above, while social spending and labour costs in the public sector were being reduced is a spectacular example of unequal spending patterns, but by no means the only one. In fact, it epitomizes the order of priority of the government, whereby financial creditors are seen as more important than their less affluent counterparts. In this logic, social spending is unlikely to be reinstated in the coming years, given the fact that debt servicing costs currently take up a very large portion of tax revenues (see Figures 11 and 12). Taxes themselves have become more regressive, as the government has increasingly resorted to indirect taxes instead of income taxes (Figure 10).

The change in real wages and the labour share around the time of the crisis is also very revealing of the underlying balance of power. The difficult economic conditions created by the crisis gave capitalists a lever to undercut labour militancy and make them accept worse conditions. The number of unionised workers decreased by about one sixth, while the number of workers on strike in 2001 was only half of what it was the year before, a number which further decreased in 2002 (Table 5). At the same time, the government was cutting the wages of public employees and freezing the real wage of civil servants (IMF, 1999b). This conjuncture resulted in major wage concessions. In 2001, real wages experienced a decline of between 14.5 and 29%, depending on the source and measure used (Table 3). Similarly, the labour share also decreased in 2001 (Table 4). The decline of the labour share is all the more

important that the GDP was itself decreasing a lot, so that workers ended up with a smaller proportion of a much smaller pie.

IV- HONEST MISTAKES?

From the foregoing sections, it can be seen that the 2000-01 financial crisis in Turkey enabled international finance capital to expand itself both through a capture of a large amount of wealth and assets and an increase in its clout and control over parts of the Turkish economy. We take this as evidence that localised financial crises can actually be beneficial for the system as a whole, as well as the entities which dominate the system in its current form. This conclusion is in no way peculiar to our paper, as it fits well with recent accounts of the global neo-liberal regime, such as that of Harvey (2003) and Duménil and Lévy (2003).

If it is indeed the case that the system as a whole may benefit from financial crises, then, the next logical step is to question the intentions of the different actors involved to try to determine the extent to which such crises could be contrived... while resisting the siren call of conspiracy theories, at least until it is the last option remaining. Before we reach that point, there seems to be at least two different possibilities: (1) Neo-liberalism could be a genuine development model and financial crises simply be the result of honest policy mistakes which generate business occasions seized by some sharks in financial markets or (2) Financial crises could be a component of a system whose rules of the game are designed to the advantage of international finance capital and the developed economies in which it is based and whose preservation takes precedence over the protection of peripheral economies. As we state in the introduction, we believe this second option to be the most accurate depiction of the situation.

Trade and capital flows liberalisation figure prominently amongst the policy prescriptions underlying the current neo-liberal system. The stated belief that these policies are desirable is widely shared in academic and policymaking circles in Europe and North America, and also increasingly in developing economies (Wade (1998, 2000), Wade and Veneroso (1998)). This apparent *consensus* stands in stark contrast with the paucity of its theoretical and empirical backing. For one thing, there are no solid theoretical bases for the

liberalisation of capital flows. As Bhagwati (1998) points out, most arguments advanced in favour of free capital flows seem to be taken from trade theory, without regards for the differences between currency units and commodities. This leads to the underweight of important risks and costs which are not present in the way in commodity markets, such as that of financial meltdowns, and thus to an improper evaluation of the net gains of capital account liberalisation. Favourable empirical evidence is also scarce. While most “developing countries” which have succeeded in achieving sustained growth and industrialisation have done so behind tight capital controls, several countries which have instead liberalised their capital account have been subjected to the vagaries of international capital markets and its pattern of booms and busts¹³. Furthermore, even the effects of trade liberalisation, for which there exist established theoretical results, are ambiguous (Rodriguez and Rodrik (2000)).

Nevertheless, the governments of leading industrialised countries, along with international financial institutions (IFIs), are busy peddling the neo-liberal model throughout the world. They bribe countries with aid or debt relief to push them to liberalise their capital and current account and make their legal framework amenable to private investment¹⁴. When this is not enough and the situation allows, power or other less official means is sometimes employed to bring countries to compliance¹⁵. In addition, IFIs may seize the chance offered to them by situations of economic hardship, such as financial crises, to bargain their assistance in exchange for some of these reforms, as we describe above (see also Wade (1998, 2000), Wade and Veneroso (1998), Bhagwati (1998), Stiglitz (2002)). Eventually, in a liberalised environment, discipline and reforms can be imposed directly by international financial markets. In the words of Timothy D. Lane, excerpt from an IMF staff paper, “the risk of crisis is the spur of market discipline. Thus, crises can have a necessary, even salutary role in forcing governments to follow sustainable policies” (quoted in Herold (2002)). If the neo-liberal model cannot be shown to be beneficial for “developing countries”, let alone superior to other development models such as those used in East Asia, why be so committed to its universal adoption?

In our view, part of the answer lies in a closer consideration of the constituencies involved.¹⁶ Bhagwati (1998) notes with dismay that the costs of financial crises are seldom factored in the analyses of the proponents of financial liberalisation. However, these costs are only relevant for the countries involved, since localised financial disruption can actually

benefit international capital and industrialised countries, as we show above. Since IFIs are populated by members of the international financial community (Bhagwati (1998), Chossudovsky (1997), Stiglitz (2002), Wade (1998, 2000), Wade and Veneroso (1998))¹⁷ and that this community is a strong lobby in developed countries in any case, is it surprising that these costs are discounted? Worse still, in the Turkish case, when trouble erupted, the IMF insured that international capital would be completely shielded from it at the expense of the Turkish population by pushing the government to guarantee all private liabilities (IMF (1999c, 2000c)). In fact, the complete reimbursement of foreign creditors, by and large far from being destitute, was given a higher priority than domestic social spending. Throughout the process, the IMF made sure Turkey would remain open for business by putting a lot of pressure against the adoption of any kind of capital control and providing loans to insure that the Turkish government would not have to resort to default. Complete immunity from possible prosecution was even granted to the individuals responsible to carry out the debt nationalisation and the reorganisation of bankrupt financial firms, a privilege heretofore only awarded - by itself - to the military after the last coup (IMF (2001b)).

At the same time, in addition to whatever may be reaped during a crisis, international capital reaps benefits from the neo-liberal regime. To be stark, financial and trade liberalisation imply an increase in business opportunities both for multinational corporations based in developed countries and financial firms operating on a global scale. Multinationals have greater economic power, more resources and often better technology than local firms, while financial firms thrive as the impediment to financial flows fall and these flows are allowed to increase in importance. Developed countries themselves may benefit, notably through the use of their currency by countries in the periphery for precautionary purposes. Consequently, there seems to be a community of interests between the governments of core countries, international capital and the IFIs, which are controlled by the former and populated by members of the latter. Bhagwati (1998) speaks of a “Wall Street - US Treasury complex“, which Wade (1998) extends to a “Wall Street - US Treasury - US Congress - City of London - UK Treasury - IMF complex”, making a parallel between this situation and the concept of military-industrial complex.

Under these circumstances, it does not seem too far-fetched to envisage the world capitalist system as being designed to the advantage of developed countries and international

capitalists based in them and managed as such, in an imperialist fashion. In this way, financial crises have at best the status of regrettable incidents whose ill-effects on the dominant entities have to be warded off, while constituting golden business opportunities for some. It is therefore perhaps not so much that the IMF and governments of developed countries conspire with international capital to engender financial crises, but rather that they are complacent about them, being more preoccupied with the preservation and extension of the current order. The difference between this interest-based theory and a conspiratorial counterpart is clearly laid out by Joseph Stiglitz (2002) in talking about the recent Asian crisis:

But in Asia other theories abound, including a conspiracy theory that I do not share, which views the [IMF] policies either as a deliberate attempt to weaken East Asia - the region of the world that had shown the greatest growth over the previous forty years - or at least to enhance the incomes of those on Wall Street and the other money centres. (...) I believe that there is a simple set of explanations - the IMF was not participating in a conspiracy, but it was reflecting the interests and ideology of the Western financial community (p. 130).

V. CONCLUDING REMARKS

In this paper, we have taken the view that financial crises constitute an integral part of the current international economic order and an important way in which the system is reproduced and extended. The Turkish crisis of 2000-01 appears to fit this pattern quite well. At this occasion, international capital was able to increase its hold on the Turkish economy by pushing it into a relationship of debt peonage and the capture of a large amount of its productive assets. International capital was also able to secure massive wealth transfers during the crisis and even to set up a pattern of surplus extraction through repatriated profits, portfolio income and interest payments. Capitalist exploitative processes were also exacerbated within the country, as the labour share shrank and social programs were cut-back. All of this occurred within a policy environment centred on a stabilisation program designed and managed under the auspices of the IMF. In fact, throughout the crisis, the IMF did all it could to insure that solutions implying some constraints on capital flows of any

form of default would not be explored, going as far as to push for a complete guarantee on the liabilities of domestic banks vis-à-vis its international creditors, thereby removing all the risk involved. In other words, the IMF made sure Turkey remained open for business and that potential losses for international capitalists would be minimised.

Our data fit particularly well with a view of the current economic order as being designed and managed for and by international capitalists; a system within which the costs of crises are discounted and mainly thrust upon the shoulders of the workers and the disfranchised of the countries beset by them. Our study is also in agreement with others which have analysed the imperialistic aspects of the neo-liberal order, such as that of Harvey (2003) and Duménil and Lévy (2003). Inferences cannot be drawn from the study of only one country, however, and other financial crises should be analysed before any general conclusion is reached. In enlarging the sample, it would be interesting to verify in particular whether the pattern of FDI and portfolio inflows when a country's economy is in disarray, followed by the establishment of a durable outflow in the form of repatriated profits is generally present. In the affirmative, it could constitute one of the defining characteristic of neo-liberal imperialism, whereby moments of financial distress serve as means to pry open the doors of the economies of 'developing countries' and establish relationships of economic subordination.

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TABLES AND FIGURES

Table 1: Main Economic Indicators Before-During-After Crisis

Annual growth rate of (%)	1998	1999	2000.I	2000.II	2000.III	2000.IV	2001.I	2001.II	2001.III	2001.IV	2002.I	2002.II
GDP	3.1	-5	5.5	6.8	7.9	8.4	-0.8	-9.6	-7.4	-10.4	1.9	8.2
Consumption:												
Private	1.1	-5.1	4	4.6	9.6	5.6	-2.5	-11.5	-9.7	-11.7	-2	3.1
Public	6.9	5.1	-0.7	12.6	9.8	5.8	-1.3	-6.6	-15	-8.9	2.4	2.7
Investment:												
Private	-6.7	-18.8	9.4	16.5	20.4	16.4	-14.4	-32.1	-41.5	-50.2	-26.1	-1
Public	8	1	10.8	21.8	21.3	19.9	-5.8	-32	-23.4	-18.8	-17.4	3.4
Exports	11.9	-7.1	12.1	25.9	24.6	13.7	9.7	8.2	5.9	6.4	9.1	4.2
Imports	2.3	-3.7	34.9	25.3	23.5	19.6	-14.5	-31	-26.5	-26	1.4	19.4
Macroeconomic Prices:												
Inflation	54.3	62.9	66.1	56.8	43.9	32.7	35.1	61.8	74.7	88.6	77.5	46.8
Exchange rate	71.7	60.6	60.7	49.5	46.6	28.6	64.6	96.5	116.5	114.2	41.9	25.6

Table 2: External Debt

	External Debt Service ^a	Total External Debt ^a	Public Sector External Debt ^a
1996	6.20	43.12	28.01
1997	6.43	43.57	25.72
1998	8.05	47.02	25.34
1999	9.83	55.29	28.30
2000	<u>10.89</u>	<u>59.00</u>	<u>30.47</u>
2001	<u>17.10</u>	<u>79.08</u>	<u>48.61</u>
2002	<u>15.80</u>	<u>71.37</u>	<u>46.17</u>
2003	11.63	61.03	38.43
2004 Q1	11.46	55.83	34.35
2004 Q2	10.73	53.94	32.33
2004 Q3	10.53	53.94	31.40

a/ Figures as percentages of GDP

Source: Treasury

Table 3: Real Wages

	Annual Real wage indices		Change in real hourly wages (%) (3)
	(1)	(2)	
1993	100	137.6	
1994	95.1	97.4	
1995	75.9	96.1	
1996	58.6	102.2	
1997	68.3	100	
1998	65.4	107.9	
1999	82.7	106.3	11
2000	95.5	99.1	0.5
2001	77	70.1	-14.4
2002	76.7		-15.7

Source: (1) Turk-Is Research Department (www.turkis.org.tr)

(2) and (3) Sönmez (2002: 47)

Table 4: Labor's share in income

1995	22.2
1997	25.6
1999	30.6
2001	27.9

Source: Sönmez (2002)

Table 5: Unionization and Strikes

	Number of unionized workers	Number of workers joining strikes
1996	2,695,627	5461
1997	2,713,839	7045
1998	2,856,330	11482
1999	2,923,546	3263
2000	3,086,302	18705
2001	2,580,927	9911
2002	2,648,847	2220

Source: Sönmez (2002)

Table 6: Closed firms

	Large firms	Small firms
2000	1887	12055
2001	2664	13707

Source: Sönmez (2002: 100)

Figure 1: Turkey-IMF Transactions
(million SDRs)

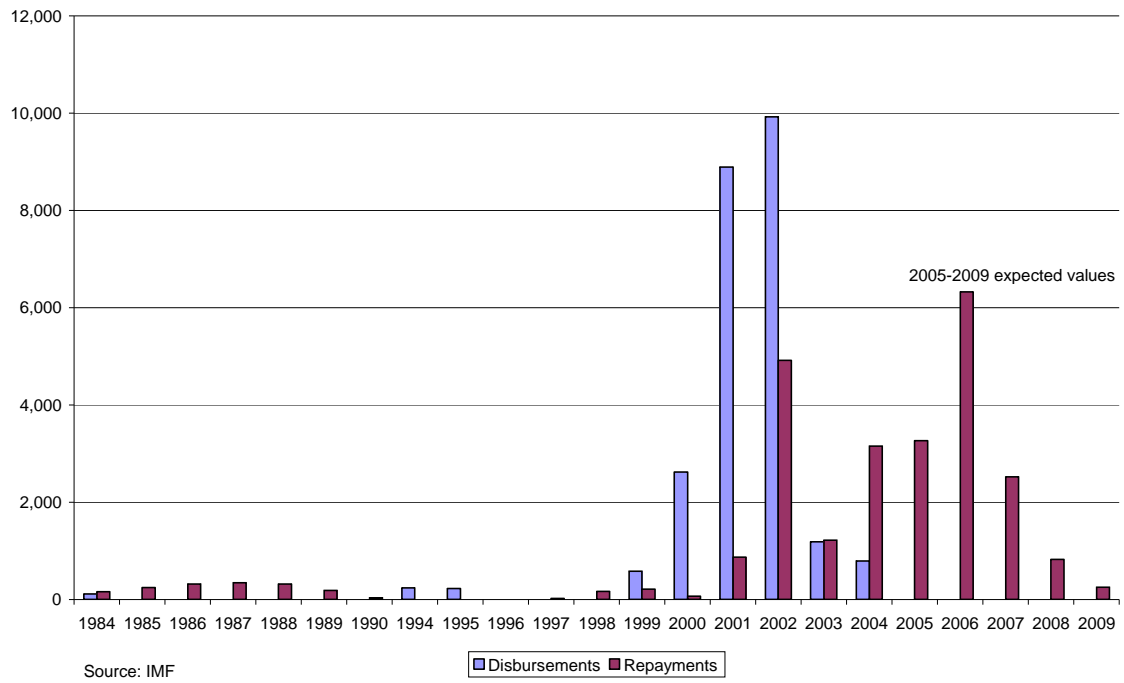
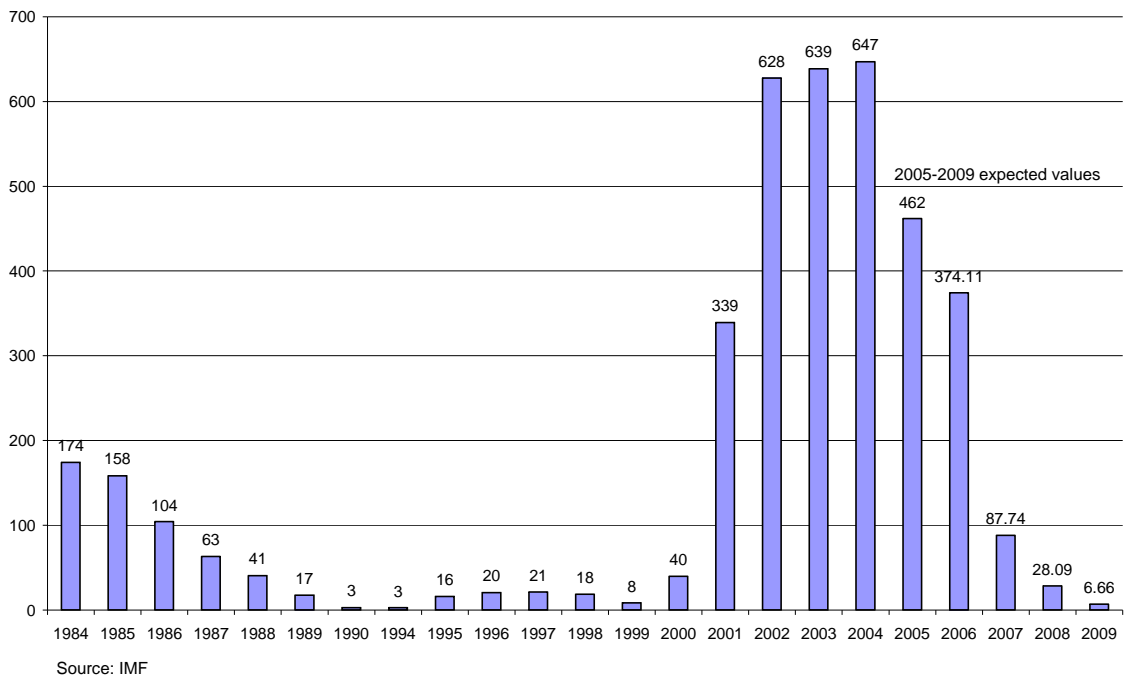
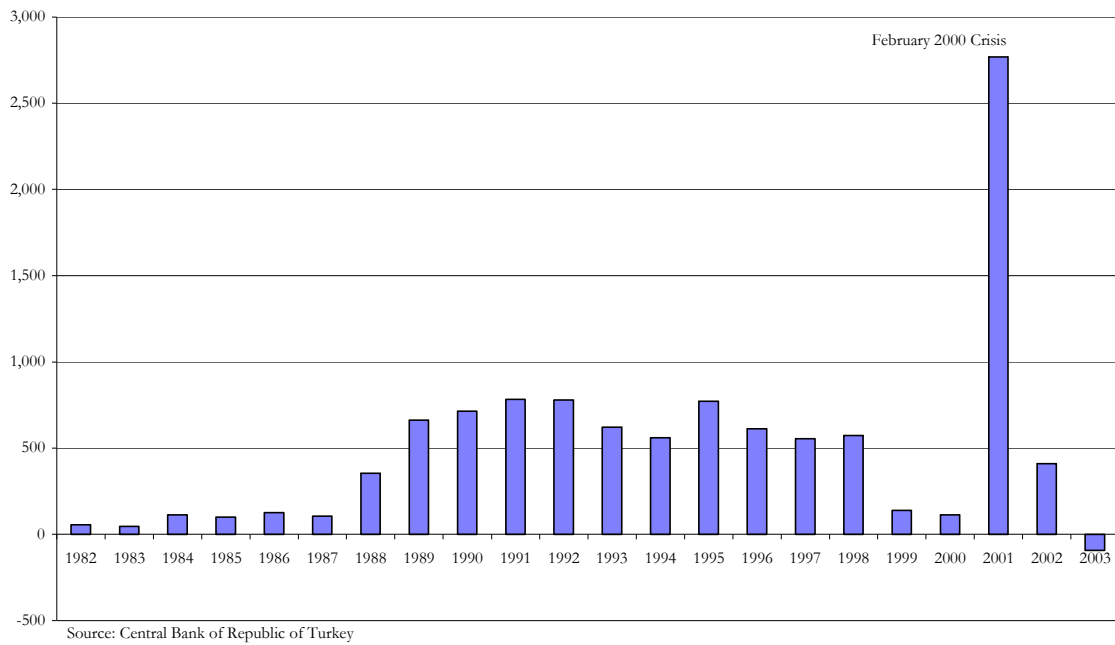


Figure 2: Charges and Interest Paid to the IMF
(million SDRs)



**Figure 3: Net Foreign Direct Investment in Turkey
(million US\$)**



**Figure 4: Cross-border M&A sales by Turkey, 1988-2002
(millions of dollars)**

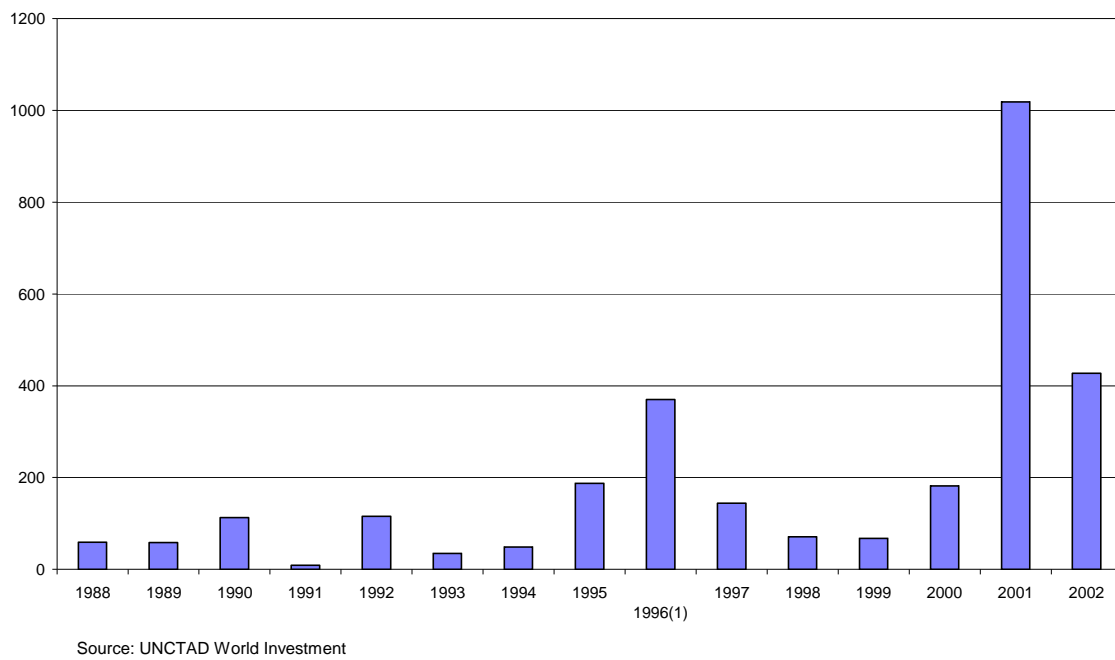


Figure 5: Annual privatizations
(million \$)

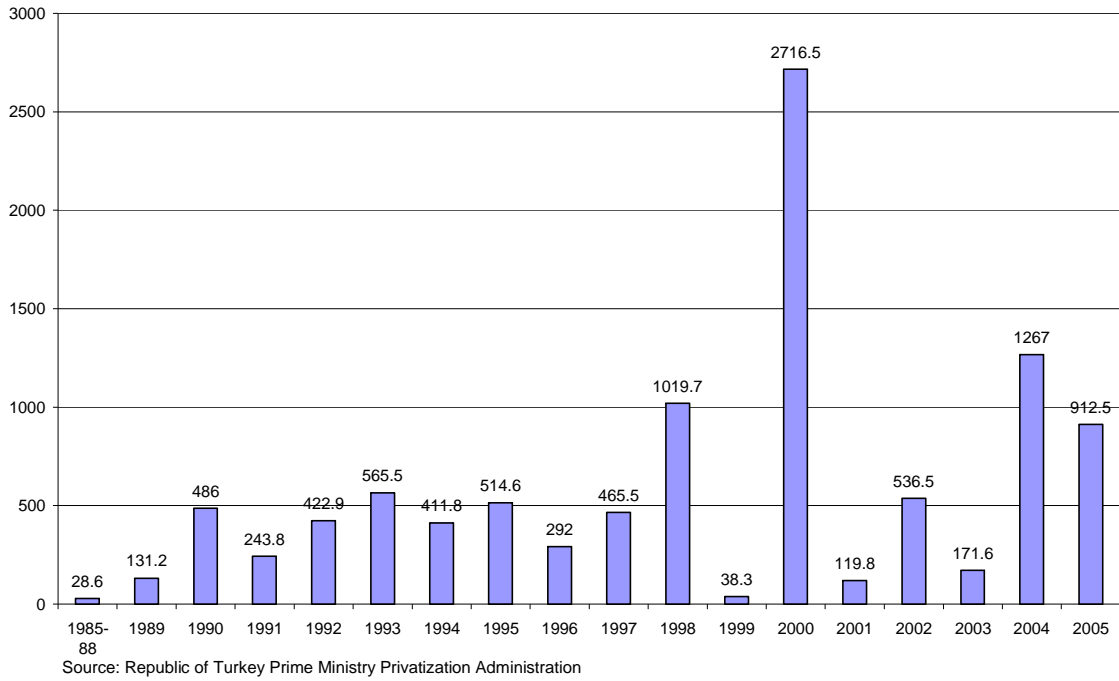


Figure 6: Net income outflows
(in million \$)

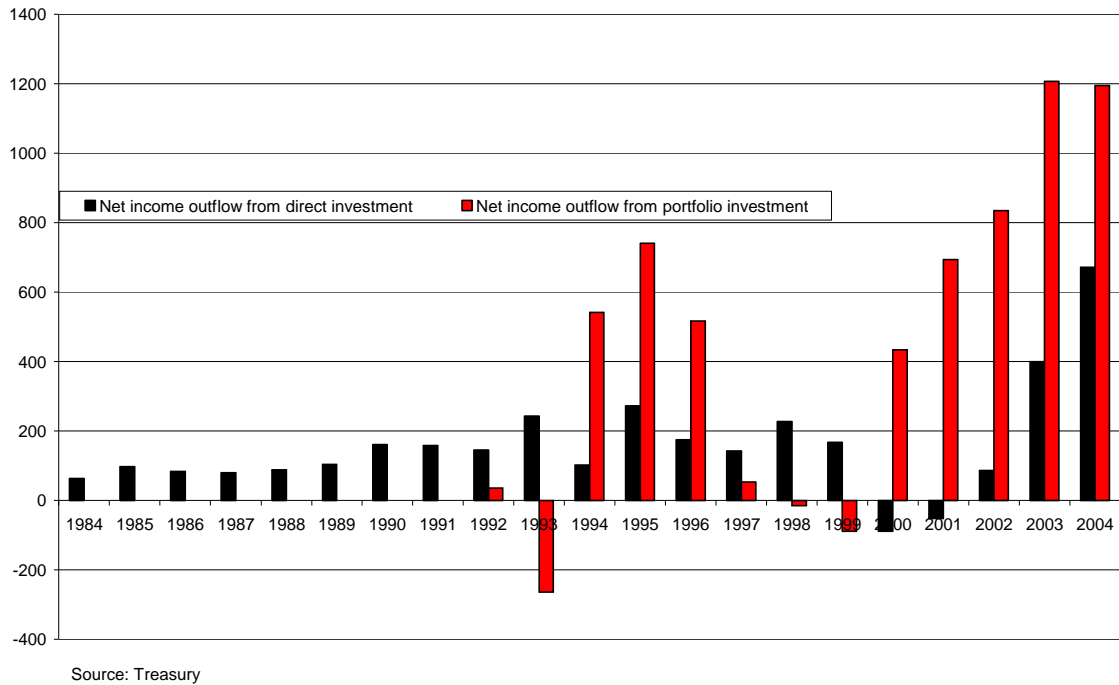
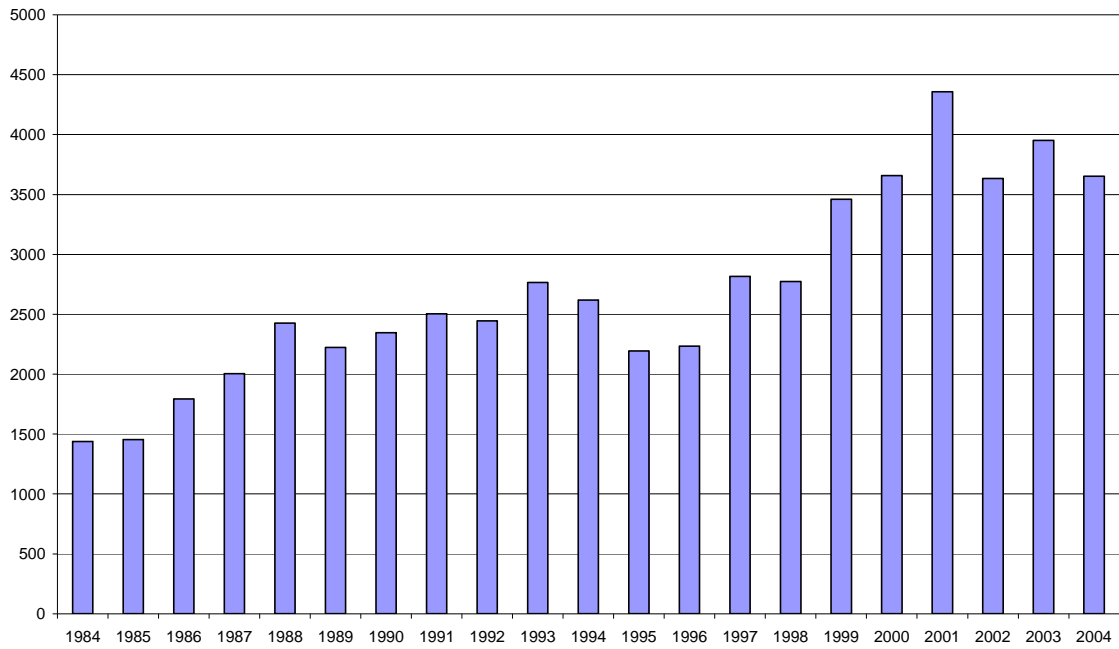
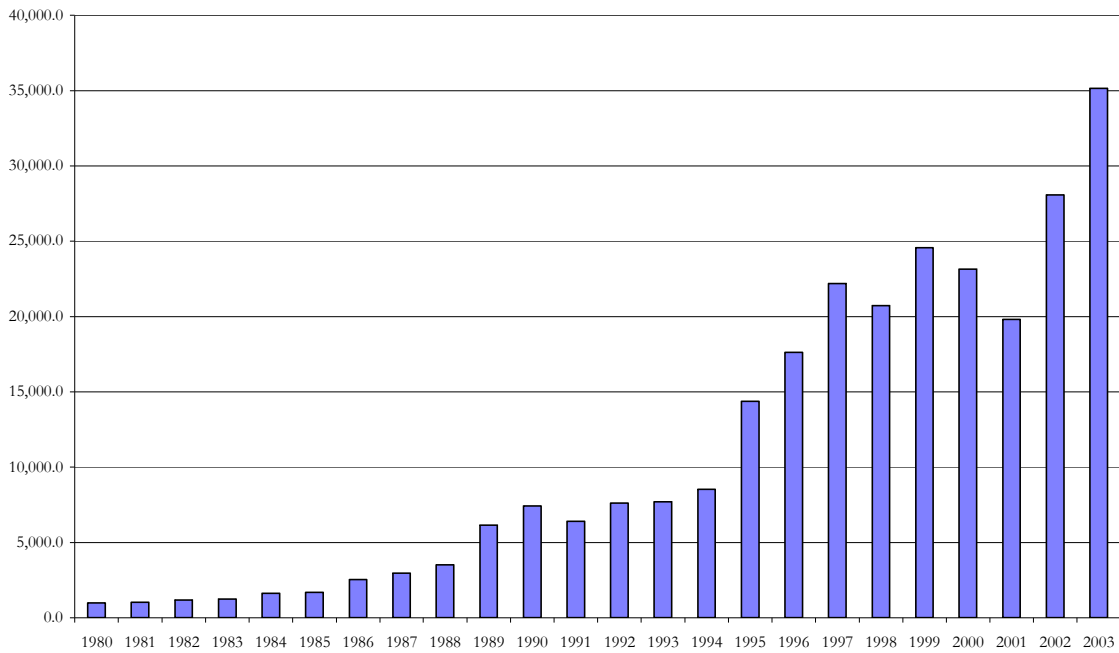


Figure 7: Net interest outflow



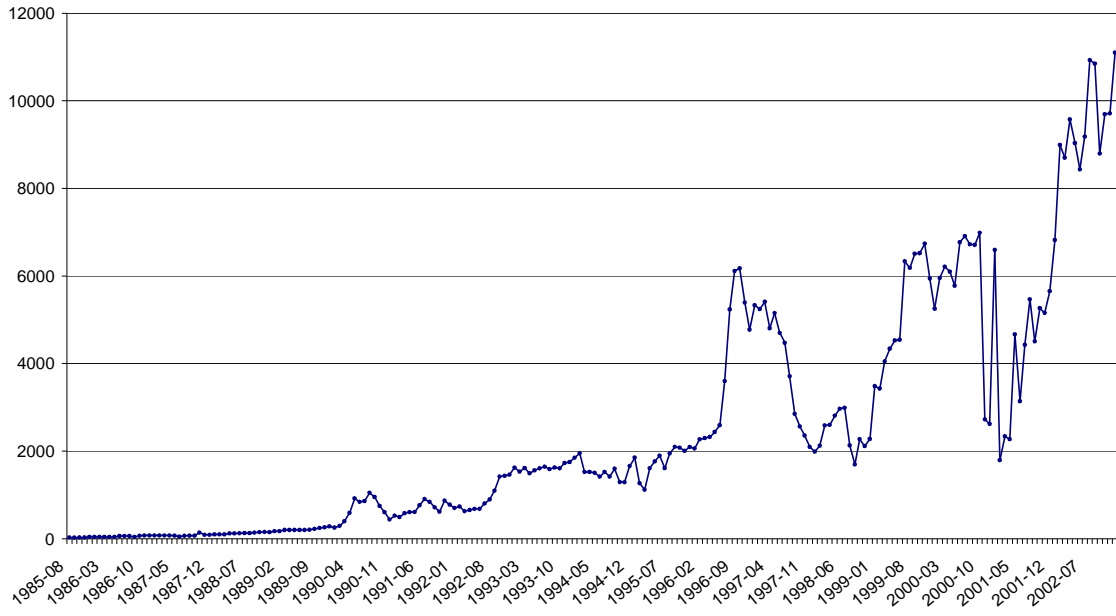
Source: Treasury

Figure 8: Foreign Exchange Reserves of the Central Bank
(million \$)



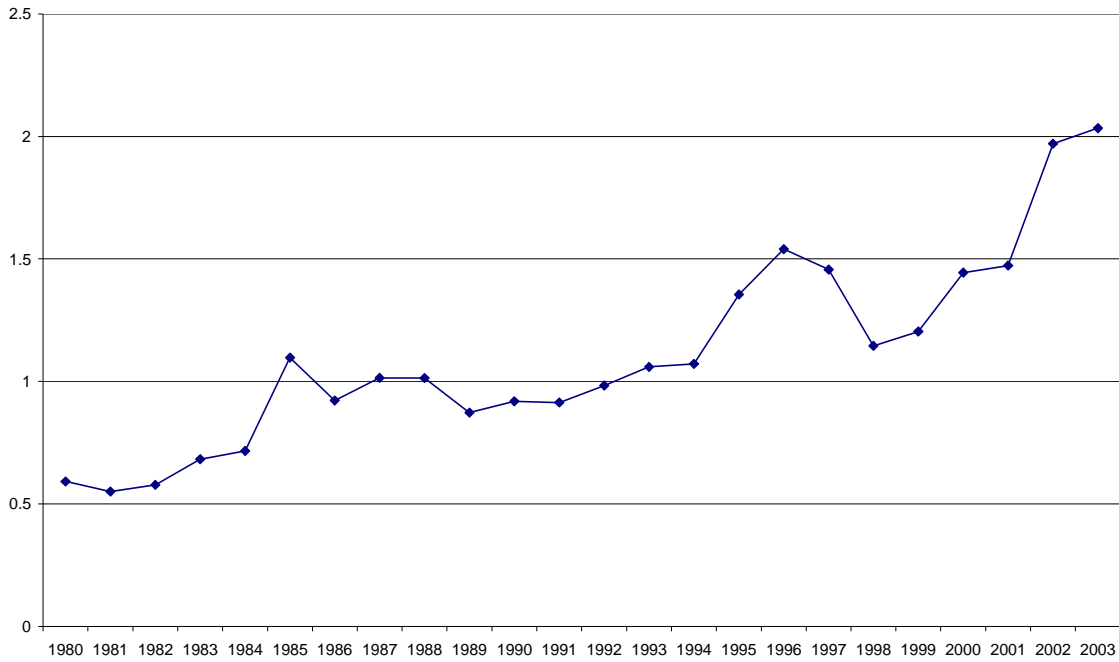
Source: Central Bank of Republic of Turkey

Figure 9: Short-term US Treasury obligations to Turkey
(million \$)



Source: US Treasury International Capital Reporting

Figure 10: Indirect taxes/direct taxes



Source: Treasury

Figure 11: Interest payments/Total tax revenues

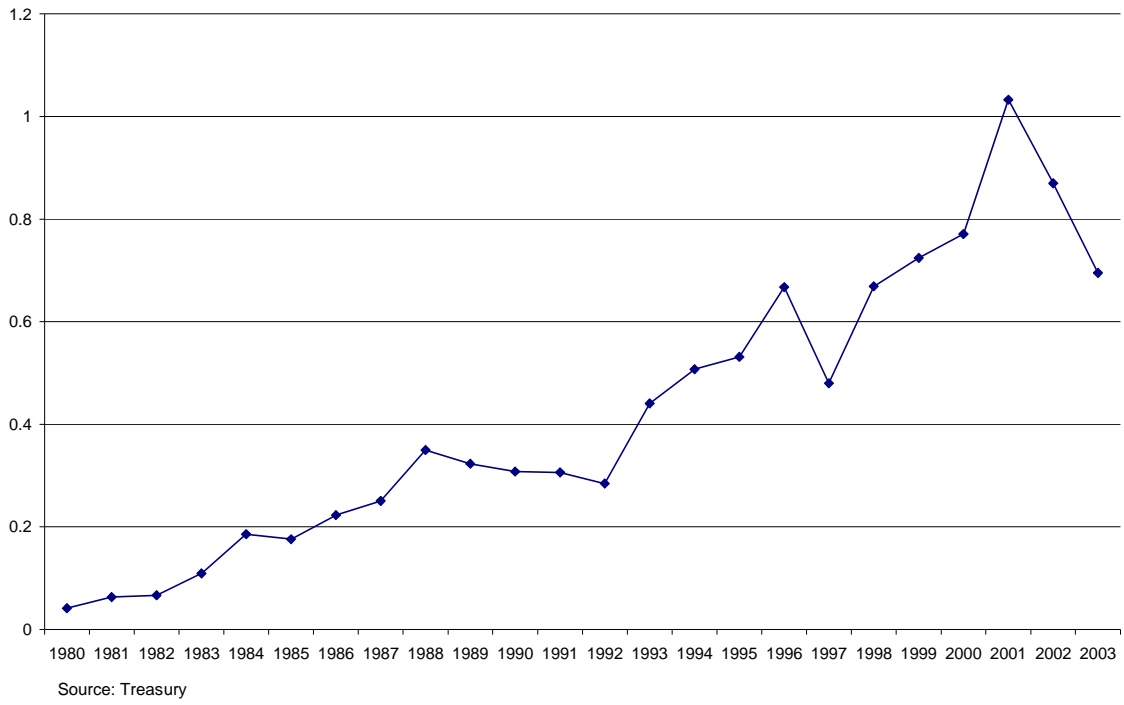
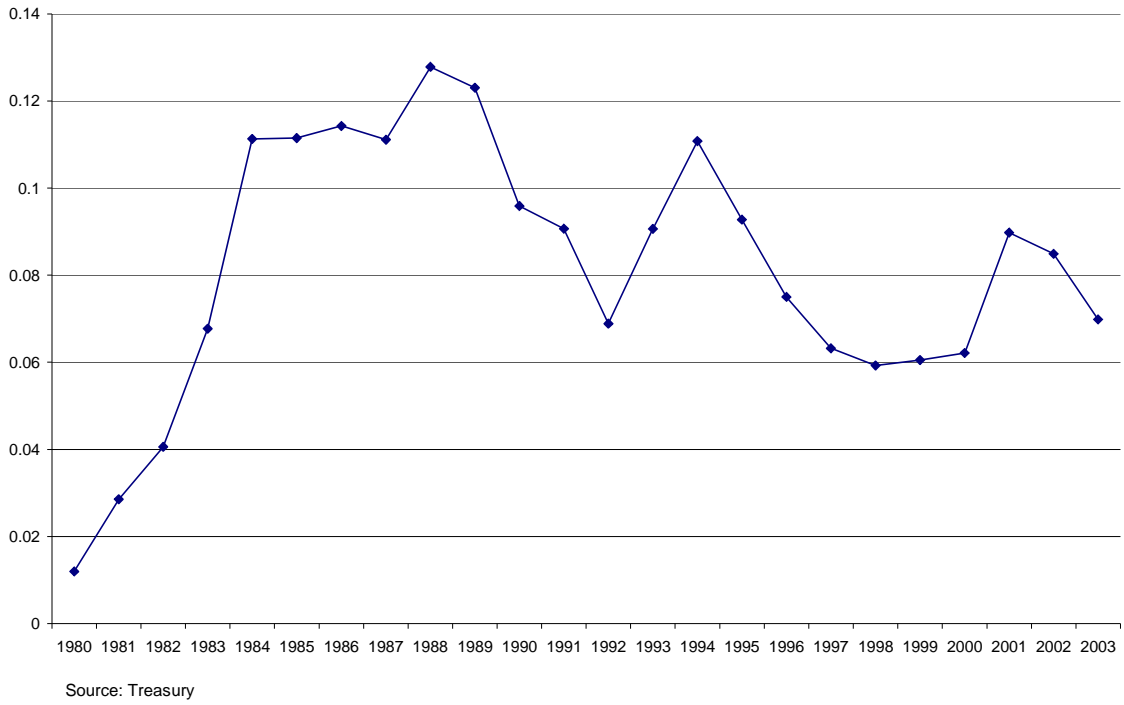


Figure 12: Foreign interest payments/total tax revenues



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ENDNOTES

¹ We refer the reader interested in this debate to Akyüz and Boratav, 2002; Boratav and Yeldan, 2002; Yeldan, 2002; Celasun 2002; Alper and Öniş, 2002; Cizre and Yeldan, 2002; Voyvoda and Yeldan, 2002; Ertugrul and Selcuk, 2001; Gencay and Selçuk (2001), Yentürk, 2001; Alper, 2001; Uygur, 2001; Boratav, 2001; Ersel, 2000, Yenil, 2000; Celasun, 2001; Yeldan, 2001a, 2001b, 2001c, 2001d and 2001e.

² Since the late 1970s, which is often viewed as being roughly the beginning of the neoliberal age, the frequency of financial crises in ‘developing countries’ has been on the rise (Bordo *et al.* (2001)). Of course, this fact, however difficult to deny, does not necessarily lead to our conclusion regarding the role of financial crises within the system; more evidence is required to make that assessment. Providing such evidence for the Turkish case is the aim of this paper.

³ For a thorough overview of the macroeconomic developments in post-liberalization Turkish economy see, for example, Ertugrul and Selcuk (2000), Boratav *et al.* (2000), Kepenek and Yenturk (2001), Ucer (1999), Yeldan (1992).

⁴ Government finances appeared to have been on an unsustainable path throughout the 1990s, as interest payments required increasing borrowing. However, in terms of its level, the public debt was not that high at the beginning of the stabilisation program. According to the statistics cited in the Memorandum of Economic Policies of June 26th 1998 (IMF (1998)), the public debt stood at 36.3% of GNP at the outset of the program (42.9% of GDP at the end of 1997 according to Akyüz and Boratav (2002)), which is around the OECD average (e.g. 47% in 1997 and 46.6% in 2004) (OECD (2004)). Moreover, the correlation between the debt (or deficit) and the inflation rate in Turkey in the 1990s is not that clear cut (Akyüz and Boratav (2002), esp. table 1), the assertion made in support of the program’s objectives notwithstanding. In this context, it is interesting to see the stress put around debt reduction, especially later on when the financial crisis erupts in Turkey.

⁵ See Table 1 for the development of main macroeconomic indicators during the crisis.

⁶ It is perhaps interesting to note in passing that while the level of government debt at the outset of the program was deemed to be highly problematic, an argument that was used to justify the large-scale privatisation effort, borrowing to honour guarantees to foreign investors and support an unsustainable peg was seen as acceptable. When the dust settled, at the end of 2001, the government was left with a debt of 93% of GDP, up from 44% when the program was designed in 1998 (Akyüz and Boratav). The debt rose to 61% in 1999, largely as a result of a major earthquake which shook the country during the summer of 1999. In the process, as privatisation was not doing much to alleviate the debt burden, the discourse evolved to stress efficiency considerations instead of government financing needs (e.g. IMF 2001a). This suggests that privatisation itself, and not the decrease in government debt, was the main objective in this case. In fact, in early 2000, when the stabilisation program had not come under too much strains, primary budgetary surplus were surpassing expectations. Far from relenting, the pressure to privatise continued unabated and the government announced to the IMF its will to step up this component of the program (IMF 2000a). This makes it even harder to believe that there were strong links between debt reduction and privatisation targets.

⁷ For a narration of other similar cases of IMF bail-outs of first-world bankers in times of crisis through an increase of the liabilities of the government of the affected country, see Stiglitz (2002).

⁸ See Desai, Foley and Forbes (2004) for a careful layout of this argument.

⁹ Arguably, the level of FDI was still relatively low in 2001, especially if we compare it to countries which have a longer history of foreign investment, such as Mexico (The Economist (2005)). However, what is important is that this level of FDI was quite extraordinary *for Turkey*, which is what we believe should be the point of reference, given that a host of other factors specific to Turkey determine the level of investment in that country.

¹⁰ Some of these profits may also have come from the expansion of foreign affiliates in Turkey. Unfortunately, we do not sufficient data to be able to quantify this expansion or properly determine the contribution of each process in generating the profits subsequently repatriated. Such a differentiation is perhaps superfluous for the general argument, however, as an investment cum repatriated profits pattern is clearly identifiable from FDI and portfolio data.

¹¹ A similar pattern can be observed for portfolio income following the previous financial crisis in 1994, when it suddenly rose from nothing to more than 700 millions within a year, although the increase was more short-lived than for the 2000-2001 crisis.

¹² The costs associated with the holding of foreign reserves are laid out very elegantly by Joseph Stiglitz in what follows: “To manage risks associated with these volatile capital flows, countries are routinely advised to set aside in their reserves an amount equal to their short-term foreign-denominated loans. To see what this implies, assume that a firm in a small developing country accepts a short-term \$100 million loan from an American bank, paying 18 percent interest. Prudential policy on the part of the country would require that it would add \$100 million to reserves. Typically reserves are held in US Treasury bills, which recently paid around 4 percent. In effect, the country is simultaneously borrowing from the United States at 18 percent and lending to the United States at 2 percent. The country as a whole has no more resources available for investing. American banks may make a tidy profit and the United States as a whole gains \$16 million a year in interest. But it is hard to see how this allows the developing country to grow faster. Put this way, it clearly makes no sense. There is a further problem: a mismatch of incentives. With capital market liberalization, it is firms in a country’s private sector that get to decide whether to borrow short-term funds from American banks, but it is the government that must accommodate itself, adding to its reserves if it wishes to maintain its prudential standing” (Stiglitz 2002: 66).

¹³ See Bhagwati (1998) for an argument along those lines and some examples.

¹⁴ See Monbiot (2005) and James S. Henry (2003) for some examples. The latter is especially detailed, notably concerning the identity of individual and corporate actors.

¹⁵ Michel Chossudovsky (1997) narrates several such instances, notably the recent war in Kosovo, while John Perkins (2004) testifies of some heavy-handed tactics he witnessed during his career as an international consultant on the payroll of the United States National Security Agency.

¹⁶ A thorough analysis of this issue lies well beyond the scope of this paper. We only give a brief overview of some of its aspects and heavily rely on secondary sources such as those cited in this section.

¹⁷ Hassdorf and Cleary (2005) analyse the incestuous relationship between the financial communities of London and Wall Street with their respective central banks during the Barings crisis of 1890 for the former and the Long Term Capital Management for the latter. They show how this relationship insured that the regulators and financiers develop a common view of the world and come to equate the interest of the financial community with that of the public interest. A similar argument could be made for international financial crisis, whereby IFIs believe that the financial system should be preserved first and foremost, even to the expense of social programs. Do we want to make any more of this?