The Study of Post-1990s Bank Privatization in Turkey and Mexico: A Historical Materialist Intervention

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Introduction

Privatization and liberalization have been at the forefront of structural adjustment policies and processes since the 1980s debt crises while comparative inquiry has been trying to understand these changes. Across the board, everything state-owned became targeted for potential privatization, from productive industrial enterprises to public services to the financial and banking system, but not everything was privatized immediately. In this, the case of bank privatization is unique. Why is this and how do we understand it? Not only has bank privatization been initiated much later than most privatizations, but it has often been followed by degrees of re-nationalization due to bank failure. But post-1990s bank privatization is also unique and important because it represents the intersection of two vital aspects of the neoliberal shift from state-led to market-led capitalist development, namely privatization and financialization, which have manifested in a variety of forms. This intersection occurs simultaneously within the interrelated spheres of states and the world market, within which social relations of power are played out. Thus the question of how to study bank privatization is raised.

The debates on bank privatization and how to understand it have been dominated by liberals and their main critics, institutionalists. Typically, the former draws from large aggregate studies to pinpoint sources of public inefficiencies and corruption while the latter refutes liberal claims by detailing how different domestic policy choices can enrich national competitiveness. Given the intersecting relations of power in bank privatization, however, I suggest that neither the liberal nor institutionalist analytical framework is best suited to explain the causes of banking changes over time and across space. In fact, liberals admit that their broad empirical correlations cannot address causality (La Porta *et al*. 2002; Bekaert *et al.* 2005, 41), while institutionalists have great difficulty integrating their causal explanations and specific cases within the capitalist world market (Alper and Öniş 2003; Haber 2005; *cf*. Radice 2004).[1]

Alternatives approaches exist. One such alternative is a comparative and agency-centred historical materialist analytical framework.[2] This framework, I argue, offers a more historically-grounded, integrated, and realistic causal understanding because it begins with an understanding that bank privatization takes place not solely within state boundaries but rather within a state-world market nexus.[3] Being agency-centred, the causes of bank privatization, while conditioned by capitalist accumulation imperatives in the world market, are understood as resulting not from agent-less structures but from individual and collective class-based agents' decisions whose actions are mediated by the already-existing institutions, spatial configurations, and discursive formations through which they act, although not always exactly as planned.

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[1] While I disagree with her derivationist roots, von Braunmuhl offers some insight into the capitalist world market, understood as "an international, state-organized and specifically structured, all-encompassing effective international context of competition" within which states change and consolidate themselves forming their unique political economic structures (1978, 167). For me, the world market is best understood as a real abstraction, i.e., arising out of capitalism, of abstract and universal flows of money, credit, and capital.

[2] In forming this comparative framework, I respond to Radice's (2004) challenge to explore understandings of globalization that couple an analysis of the state with a wider understanding of global capitalism, one that allows for the restructuring of state and major institutions of capitalism simultaneously at the domestic and international levels.

[3] Albo (2003) points to this state-world market nexus when he notes that the nation-state appears, on one hand, as the historically-specific institutionalization of class relations and, on other, as the mediator of a wider set of social relations of differentiated accumulation patterns established by the world market.

Not only does a historical materialist framework better explain *why* bank privatization occurs, but it can also better explain its effects, how social relations of power are reconstituted, and why capitalism changes.

In developing my historical materialist approach specific to bank privatization, two further statements regarding methodology and banking and development are made. First, the study of bank privatization should be approached methodologically through an “incorporated comparison” research strategy that integrates the singular and multiple comparative forms (McMichael 1990).[4] In Turkey and Mexico, this means looking at the 1991-2006 period of bank privatizations amidst neoliberalization domestically and internationally. Second, and despite liberal and some institutionalist claims to the contrary, there is no *a priori* reason to jettison state control of banking and finance from the development agenda.

I proceed by first discussing contending liberal, institutionalist, and historical materialist understandings of neoliberalization processes. Second, I offer some historical context to the Turkey-Mexico comparison, the concrete bases of my analytical argument. Part three details my historical materialist comparative and conceptual framework specific to bank privatization. I conclude by challenging a recently posed radical ‘endogeneity’ thesis as an alternative analytical approach (2004) by re-stating the importance of a more encompassing historical materialist analysis.

I) Approaches to Neoliberalization

The role of state and the specific historical processes of privatization and financialization have undoubtedly been front and center to neoliberal structural adjustment over the last three decades. Therein, Turkey and Mexico have complied and are expected to comply further with sometimes contradictory domestic, regional, and global demands for deepening neoliberal reform. Demands are often channeled through international financial institutions (IFIs) or more directly from the US Federal Reserve and the European Union. This can create domestic conflict within states as these demands must be grafted onto, without totally replacing, pre-existing social structures and compromises.

In this context, I explore a number of questions that are answered differently across liberal, institutionalist, and historical materialist theoretical paradigms. For example, what has enabled the resurgence of financialization, what is the nature of the world market, why are banks privatized, how does bank privatization affect domestic state-society interrelations, and who benefits? What do the analytical frameworks have to say in response to these questions above and do they all capture the dynamic complexity, multiple power relations, and distributional consequences of financial liberalization? Below I suggest that the liberal and institutionalist approaches do not, while a historical materialist approach does offer the necessary analytical tools.

Liberal

Liberals argue that trade and capital mobility should result in developmental convergence and that markets are optimal social allocators through which individual,

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[4] In the multiple form, one investigates a continuously evolving process through time- and space-differentiated instances of a historically singular process (McMichael 1990, 392). In the singular form, a cross-section is studied or variation is analyzed in or across space within a historical conjuncture (McMichael 1990, 393). The two forms may be combined as mutually conditioning, the multiple form as a generalizing thrust and the singular as a particularizing one (McMichael 1990, 389). Methodologically, then, an incorporated comparison integrates theory and history such that both “abstract individuality” and “abstract generality” are avoided and, as McMichael suggests, so as to “try to perceive the unity in diversity without reifying either” (1990, 395).

rational, and egoistic actors are linked (Marshall 1920; de Rato 2005; *cf.* Coates 2005). Economic relationships are organized in production functions such that growth is a function of the interconnections between land, labor, capital, and enterprise, all of which are subject to the law of diminishing returns over time producing secular growth. Free-flowing capital is a prerequisite as is advancing exchange relations. Milton Friedman (1982) provided the monetarist doctrine as an attack on post-war Keynesianism while Friedrich Hayek (1967) provided the foundational critique of the state.

Today's reflection falls broadly under the 'globalization thesis', which sees trade and growth in world market flows as something which is uncontestable, irreversible, and undermining the nation state wherein transnational corporations (TNCs) have become the major actors globally (Ohmae 1990).

Less extravagant than Ohmae is economist Stanley Fischer's (2003) understanding of an ongoing process of greater interdependence among countries and their citizens. While he recognizes that all is not perfect, Fischer agrees with Rudi Dornbusch (2000) that economic globalization has nonetheless produced unrivalled prosperity for all (also see de Rato 2005). Countries should liberalize capital accounts and integrate into global capital markets because the benefits of a well-phased and well-sequenced integration outweigh the costs (Fischer 2003 and 1998).

Liberal debates on the nature of the world market centre on the "Washington consensus" policy constellation (Williamson 1990 and 1993), the most heated of which gravitate around capital account liberalization (Fischer 2003; Bhagwati 1998; Rodrik 1997; de Rato 2005). For their part, Dani Rodrik (2002) and Joseph Stiglitz (2002) argue that the financial system is essentially broken and that neoliberal reform has not produced rapid and sustained economic growth. On the other hand, despite crisis and critique, advocates argue that "the *revealed preference* of the emerging market countries is to stay involved with the international financial system" (Fischer 2003, 20; my emphasis). The outward-orientation of the Washington consensus, however imperfect, remains essentially the correct, indeed dominant, policy constellation in liberal debates (Fischer 2003).

Liberal understandings of the role of state vis-à-vis the market is best captured by Hayek, who stresses individual liberty under the rule of law and clear limitations on coercive governmental power (1984; 1967). As a spontaneous order of aggregated individual acts, liberalism is more complex, desirable, and neutral than any deliberately constructed society thereby allowing for the pursuit of different, divergent, and conflicting individual purposes. Private property is fundamental as it is the sole realm in which one can reasonably and justly prohibit others from infringing upon one's protected domain. Market-based competition acts as an equalizer allowing for comparative advantage in exchange and competitive production. Governments, however, have historically thwarted this goal by restricting and/or facilitating the entry and exit of particular actors in the market. Privatization, by logical extension, is critical to the success of freedom and an anchor of efficiency (also see Vanberg 2005). Most liberal studies of bank privatization draw on these same basic tenets.

La Porta, Lopez-de-Silanes, and Shleifer (2002) are widely regarded as having produced the current benchmark empirically-based liberal study on bank privatization. La Porta *et al*. suggest that government ownership of banks remains globally pervasive despite post-1980s privatizations. In contrast to institutionalist approaches, they argue that the costs of continued public ownership are too high. Following Hayek, government ownership leads to the misallocation of resources that negatively affects productivity and economic growth. The essential point made is that more government ownership of banks in 1995 correlates with countries that are backward, less democratic, statist, poor, interventionist, inefficient, financially underdeveloped, and which display weak property rights. However, while stating that given limited data they "cannot really say what 'causes' high government ownership of banks", and against the authors' own warning that "as with most growth regressions, these results are not conclusive evidence of causality", subsequent studies have built upon this foundational study.[5]

Otchere (2005) empirically charts the pre- and post-privatization performance of banks in middle- and low-income countries and finds that privatization does not bode well for rival banks. Moreover, privatized banks tend to underperform in the long run despite showing marginal performance improvements but this is so because these banks have been only *partially* privatized. Extending La Porta *et al.* (2002), Boehmer, Nash, and Netter (2005), in a broad empirical cross-section of bank privatization in 101 developed and developing countries from 1982 to 2000, discover that both 'economic' and 'political' factors significantly influence a government's decision to privatize a state-owned bank but that *only* in developing countries are 'political' factors significant determinants of privatization decisions. Boubakri *et al*. (2005) empirically examine the post-privatization performance of banks in developing countries and argue that bank privatization has stalled because of numerous government-owned banks' bad debt portfolios, the opposition of vested interests, and because governments have not divested the "family jewels". In line with renewed World Bank interest in effective institutions and new institutional economics, they suggest privatization must be matched by institutional changes that enhance incentives and efficiency in banking while cautioning against divesting to local industrial groups.[6] In all cases the Hayekian public-private dichotomy is reproduced, such that ownership is determinant in the first and last instances.

Institutionalist

Institutionalists argue that globalization is not occurring to the extent often posited by liberals and that the nation-state has yet to wither away (Hirst and Thompson 1996). While trade and financial flows are important, they do not determine all. Recognizing imperfections in the world market, many seek a complementary supra- or transnational democratic governance structure to match processes of internationalization or globalization, understood as the growing interconnectedness and intensification of relations among states and societies (Held 1999; Porter 2001). Challenging liberal claims that competitive financial markets allocate capital justly, institutionalists are concerned with how to ensure efficient and fair market distribution via an appropriate institutional and policy matrix (Haley 2001 and 1999). For Haley, development is directly linked to maintaining flows of capital (as in liberalism); however, these highly *political* flows of capital are not neutral and must be developmentally-oriented and more justly distributed, mirroring the earlier modernization position of Gerschenkeron (1962). In the crisis-ridden cases of Turkey and Mexico, institutionalists call for more effective and democratic policy regulation, globally and nationally, as a means of taming globalization's excesses (Öniş and Aysan 2000; also see Odekon 2005 on Turkey and Garrido 2005 on Mexico).

[5] Megginson (2005) offers a summary of subsequent liberal debates on bank privatization.

[6] At this point, it is important to note that both liberal and institutionalist studies tend away from causal "why" questions and often opt to detail technically "how" privatization can proceed most effectively within their frame of reference. For example, liberals Smith and Walter (2003) ask the technical questions of how privatization should proceed: should SOEs be restructured first, should they be tendered through trade sales, management of leveraged buyouts, public offerings, sales to employees, vouchers, operating concessions, etc. while more institutionally inclined Aaron Tornell (2000) is concerned with effective privatization transfer criteria and SOE restructuring principles.

The state, or 'apparatus of 'government', for institutionalists "appears to be everywhere, regulating the conditions of our lives from birth registration to death certification" (Held 1983, 1). They often maintain the strong developmental orientation imputed by J.S. Mill's concern with unequal distribution and state-led intervention and redistribution. Developmentally speaking, modernization theorist Gerschenkeron (1962) offered two relatively nuanced propositions: (1) third world industrialization differs from the first in the speed of development and the productive and organizational structures of industry, and (2) these differences are a result of distinct institutional instruments. He believed that the scarcity of capital in Russia was a barrier to development that had to be overcome by the 'machinery of government'. Likewise, Keynesian Andrew Shonfield (1969) understood the role of state, political will, skill, and the appropriate management of the institutional apparatus as critical to post-1945 capitalist recovery and stabilizing reorganization. He, too, believed public control of the banking system to be entirely appropriate. Pre-1990s, Turkey and Mexico tended to reflect this path of public and domestic control of the banking system, if not pure public ownership of banking and finance (Waterbury 1992; *cf.* Eres 2005). Post-1990s and with assertion of market-led development, institutionalist analyses tend towards a reassertion of the machinery of government.

The developmental state literature largely captures institutionalist debates on the global south. The state's internal structure has been seen as a catalyst for creating mutually beneficial relationships with private enterprise (Johnson 1982). They have highlighted (a) states as actors and organizations within a transnational context (Evans, Rueschemeyer, and Skocpol 1985) and (b) the problematic of whether the developmental state is a prerequisite for capitalist development in the periphery (Evans 1985). Evans' (1995) later study develops this by examining state leverage via coordination of domestic linkages. Change is conceived as largely an indigenous innovation formed alongside malleable class alliances (also see Wade 2005). Weiss (2004) and Streeck and Thelen (2005) recognize a secular and incremental trend towards liberalization, but the latter seeing the either/or institutionalist debate between slow and continuous versus punctuated equilibrium as increasingly arid, they re-assert path-dependent institutional change as incremental and transformative, but as shaped by a multitude of divergent actors' choices (*i.e.,* continued national divergence).[7] The space of change remains within domestic institutions and involves individual actors. The source of shocks and crisis, however, are often externalized while limits to individual action are narrowly prescribed within the confines of institutional path dependency.

Privatization is often read as creating a state-market imbalance due to bad neoliberal policy reforms and projects that have undermined the redistributive capacity of the state and encouraged crisis (Odekon 2005; Guillén Romo 2005). Imbalances can be rectified by modifying the pace and sequencing of liberal reforms, which remain important to creating a virtuous cycle of growth. The vicious cycle, therefore, is demonstrated in Turkey's premature exposure to financial globalization (Öniş 2003) and Mexico's faulty privatization and liberalization sequencing (Haber 2005; Garrido 2005). Stable macroeconomic contexts and strong regulatory frameworks are first required for banking liberalization (Öniş 2003; Garrido 2005). At the same time and if appropriate, privatization and market reform can lead to a more pluralistic society thereby minimizing the dominance of so-called 'strong states', as argued in the case of Turkey (Heper 1991; Alper and Öniş 2003). Structural constraints to capitalist development are often left unexplored in the state vs. market-led development debate.

[7] For example, historical change is theorized as sticky and continuous by Hagan (1995) and Pierson (2001) or as sporadic and in times of crisis by Ikenberry (1988). Hay 2002 offers a good analysis of this debate.

Two important institutionalist variants need to be briefly mentioned at this point, namely the 'varieties of capitalism' and 'new institutional economics' (NIEs) literature, both of which are distinguished by their affinities to neoclassical economics. Dealing more with the advanced industrialized countries (AICs), the varieties literature critiques neoliberal convergence rationality by showing a number of persistently divergent developmental models and arguing that it has been proven difficult to dismantle the welfare state (Hall and Soskice 2001; Huber and Stevens 2001; Huber and Solt 2004; Pierson 2001). However, the varieties approach has been plagued by a system-maintenance bias as employers' differences are determined by pre-existing institutional matrices (Streeck and Thelen 2005).

Dealing more with the global south, NIEs emerged from the internal neoclassical critiques of Edward Denison, Mancur Olson, and from the work of R.H. Coase and O.E. Williamson who introduced bounded rationality, transaction costs, a deeper theory of property rights, and institutions (Williamson and Winter 1991; Williamson 2002; *cf*. Ankarloo 2002 and Coates 2005). Douglass North (1990) has done much to popularize the NIE marriage of institutionalism with neoclassical theory stating that institutions now matter as the primary cause of development and that these institutions are endogenous. Little NIE work has been done on Turkey, but in the case of Mexico Maurer (2002) emphasizes historically how an efficient banking sector is required to ensure that political power does not shift rents and stifle economic growth. Haber's (2005) study of post-1990s bank privatization in Mexico argues that it is a process driven by the fiscal concerns of the state. Haber concludes that to (a) avoid crisis and to (b) have stable privatized banking then financial systems must exhibit (1) institutions that give bankers an incentive to behave in a prudent manner and (2) institutions that give borrowers an incentive to honor credit contracts. The motivations behind and questions of who might benefit from such an institutional matrix are set aside and deemed more normative than scientific.

Historical Materialist

For liberals, neoliberalization is a set of individual revealed preferences whereas for institutionalists it is often seen as a set of policy mistakes. These positions, as such, often deny issues of power and struggle thereby reinforcing the status quo and perpetuating highly unequal power distributions in the state and world market. As Klak notes, this imbeds "an uncritical acceptance of socially constructed systems of inequality, scarcity, and poverty" (1998, 4).

By contrast, historical materialism begins by questioning the interrelated nature of the state and world market within capitalist social relations of production. How have concrete historical processes of domestic neoliberal restructuring like bank privatization enabled the deepening of financialization and the capitalist world market? What is it about the capitalist world market and financialization that in turn enables bank privatization and further neoliberalization? Embedding these questions in one's analysis from the start helps focus on the historical and multi-level causal processes behind bank privatization.

Rather than *either* liberal convergence *or* institutionalist divergence, capitalism's evolution involves both integration (tendencies to convergence) and differentiation (tendencies to divergence); that is, both uneven and combined processes of development amidst an encompassing social logic (Radice 2004; Panitch and Gindin 2003; Albo 2005 and 2003; Beaud 2001; Peet 1999). This implies that the actions and options of social agents will converge towards being increasingly structured by free market imperatives in the world market while being organized into more and more complex workplaces, territories, and state-systems tending to differentiation (Albo 2005).

In this, capitalism is understood not ahistorically but as, above all, "a complex social logic, able to transform the world around it at the same time as it is able to transform itself" (Beaud 2001, 6).

Like neoclassical approaches, neoliberalization is seen as having extended the role of market determination over state-mediated financial flows such that certain spheres of state influence and control over financial markets are minimized and/or restructured (*cf*. Grabel 2002; Panitch and Gindin 2004). Unlike neoclassicals, this is not seen as the positive extension of exchange relations but as a social and conflict-ridden strategy designed to boost profitability. Alternative institutionalist policy prescriptions, however important as alternatives to neoliberalism, are nevertheless found wanting, even voluntarist, without a structural understanding.

World market financialization, then, is the outcome of individual and collective agents' choices but choices mediated by a pre-existing structural context not of their own choosing. Financialization is an evolving and increasingly structural feature of neoliberal capitalism and is defined by increasingly speculative capital accumulation through credit practices (*cf*. Langley 2002, 134). This shift in agents' accumulation strategies, themselves shaped by the need of capital to expand, has in turn caused visible institutional, spatial, and discursive changes and substantial restructuring of domestic economic and political power relations. The expansion of world market speculation carries with it the increased disciplinary power of finance over productive capital, as well as the sharpening separation of corporate ownership and control (Albo 2005; *cf.* Harvey 1999). Financialization, then, is both a quantitative development, with financial contracts surpassing real economic transactions, and a qualitative one as the real economy and social relations are increasingly subordinated to the financial system (Altvater 1997). Rather than the extension of freedom, social relationships are more and more disciplined via credit.

Financial crises occur not solely in the abstract world market but are realized in particular forms, spaces, and in specific instances. As an assertion of the law of value, crisis reconstitutes the conditions needed to allow credit to once again augment the money supply in the financing of capital production (de Brunhoff 1976, 118). Turkey and Mexico are the concrete spaces wherein the power of social forces and the production of value are materialized and reconstituted. These states are therefore also *internally* connected to the abstract and universal flows of money, credit, and forms of commodity, productive, and speculative capital – and therefore to global power relations – in the ever-deepening capitalist world market (*cf.* Albo 2003 and 2005). These processes are not imposed from 'without' but are state-authored and organized (Panitch 1994; Panitch and Gindin 2005).[8]

[8] This approach differs from other historical materialists, such as the transnational historical materialists whose research program has been influenced by Stephen Gill's (1990) influential study of the international agencies of globalization. For example, W.I. Robinson (2003 and 2004) argues that a transnational state of supranational politico-economic institutions and practices is emerging that transmits the neoliberal agenda down to now captured and reorganized nation-states everywhere. So too have neo-Gramscians focused on a transnational capitalist class, arguing that neoliberal reform has been transmitted from the international sphere to the local such that, for example in Mexico, neoliberalism was imposed – "there was no consensus, it was just done" (Morton 2003, 645). Paying close attention to north-south dynamics, Susanne Soederberg (2004) argues that developments in the global south directly affect the global north. Yet, in her analysis of the global south and finance, Soederberg argues that the post-1970s phase of US-dominated financial liberalization is characterized by recurrent and ongoing crises and thus remains in a highly volatile and tenuous position. While I strongly agree that north-south tensions are crucial and that the south affects the north, I recognize that neoliberalism as a thirty-year old institutionalized policy matrix is not in crisis but has stabilized (Albo 2005; Marois 2005).

In understanding the role of states in capitalist change, liberal accounts have trouble illuminating the politics of economic change, treating all actors (be they firms, states, or people) as ahistorical 'black box' mechanisms for transforming inputs and outputs (Radice 2004; Kapstein 2000). Likewise, the NIE narrow focus on property rights and markets understands history in light of the present, rather than the present in light of history (Ankarloo 2002). While institutionalists often counter liberal empiricism and ahistoricism, their accounts tend towards voluntarism because they offer no credible account of hierarchy among states in the global economy – national policies of progressive competitiveness should be all that is required to succeed in the new economy (Panitch and Gindin 2005; on competitive advantage, see Öz 2004).

In particular, critiques of institutionalism – *i.e.*, seeing institutions as the final and formative context – are decades old (Poulantzas 2000; Cammack 1992; *cf.* Przeworski 2004). This analytical white elephant continues to plague institutionalist analyses as the world market is left untheorized or treated merely as another institutional space above the state waiting to be democratized. As Radice points out, the *exogenous* sources of change pointed to by institutionalists are in fact *endogenous* to world capitalism as a whole and indeed originate in specific countries (2004, 189; my emphasis). The long-held implication is that institutionalists are unable to explain long run, i.e., cumulative, social change (Cammack 1992). Rather, there is a need to move beyond institutions and policy, without jettisoning them, to examine underlying power relations and structures (Greenfield 2005). The strength of my historical materialist approach, then, is the capacity to contextualize human rationality and institutions within a wider structural logic and sets of power relations historically specific to capitalism, such that neither individuals nor institutions are determinant relations in themselves (*cf.* Albo 2005; cf. McMichael 1990, 395).

Privatization is here understood as an integral strategy of agents of neoliberal structural adjustment, who seek to reconfigure state-society relations by deepening the structural power of capital (Soederberg 2001; Gill and Law 1988; Richards 1997; Cypher 1989). It embodies three strategic goals: (1) to open-up state-owned economic space to the profit motive, (2) to extend and intensify labor's subjugation under capital, and (3) to reconfigure the state. Thus, a historical materialist comparative study of banking is important for (a) determining how power affects access to credit in the world market and therefore forms of development, (b) understanding the world market and financial stability, and (c) exploring how bank privatization is a key element of neoliberal capitalism whose changes in fact reflect shifting state-world market interrelations. It is in this sense that privatization is understood as a new form of political domination. It is also in this sense that privatization immediately brings into sharp relief the question of state in the world market. The capitalist state is at core a social relationship that is historically- and materially-based, but whose social forms also reflect three interrelated dynamics – the institutional, discursive, and spatial.[9] Rather than the withering away of the state, neoliberalization and privatization restructure the state in all its social forms (Panitch 1994; Sojo 1991; Marois 2005). The state-world market nexus presented above forms the core of my Turkey and Mexico comparative framework, which I turn to after first laying out some historical details.

[9] This understanding of state is drawn from a re-reading of Poulantzas (2000) and his engagement with Marx, Weber, Foucault, and Lefebvre. It must also be made clear that all states reflect gendered and racialized dynamics. See Cockcroft's historical analysis of Mexico for one that accounts more systematically for race, class, and gender (1998), although his treatment of state remains functionalist. Yalman (2002) offers a most nuanced and sophisticated Marxian analyse of the Turkish state.

II) Turkey and Mexico: Historically Locating the Comparison

To begin descriptively, and at the risk of some oversimplification, the post-WWII capitalist world market has been dominated by greater and lesser degrees of state-led Keynesian and liberal developmental patterns. In the early-to mid-20th century, global south states began a process of capitalist consolidation, part of which involved shaking off colonial dominance via the development of domestic financial systems. In Turkey and Mexico, their peripheral locations in the emerging world market, weakly developed domestic markets, and particular power bloc configurations encouraged a predominantly intermediated bank-based financial system as opposed to a more stock market-based direct financing model (as required in the deeper capitalist markets like the USA).[10] In addition, the dominant state-led post-War development paradigm emphasized domestic control over finances in Mexico and Turkey, even if this did not necessarily mean public ownership in each case.

In the last thirty years and following the global economic shocks of the 1970s and early-1980s, financial liberalization has experienced an ideological revival and has been re-embedded within the policy matrices of states under the guidance of IFIs like the International Monetary Fund (IMF) and World Bank (WB), as well as the US Treasury. As an interrelated process, the privatization of everything state-owned in domestic financial systems has been of central concern to state technocrats, capitalists, and popular classes. Given the centrality of finance to capitalist development, movement towards financial liberalization and privatization has been subject to a range of heated debates over its desirability as well as over questions of ownership, timing, sequencing, and the like.

The liberal, institutionalist, and Marxian studies informing these current debates have most often centered on broad accounts of global finance or on finance among the AICs wherein the global south does not often figure prominently (e.g., Ohmae 1990; Bhagwati 1998; Strange 1997; Walter 1993; Gilpin 1987; Altvater 1993; Patomäki 2001; Crotty and Epstein 2004; Arrighi 2002; Gill 1998; Gowan 1999; Panitch and Gindin 2004 and 2005). In those studies more focused on the global south and finance, questions of banking and ownership are in general not the central topic of concern (Bekaert *et al*. 2005; Soederberg 2004; Fischer 2002;; Lukauskas and Minushkin 2000, Öniş and Aysan 2000; Demirgüç-Kunt and Detragiache 1998). Some notable global south single country case studies of finance have recently appeared that are concerned with, if not centred on, bank privatization in Mexico and Turkey (Haber 2005; Guillén Romo 2005; Eres 2005; Núñez Estrada 2005). Broad, liberal, empirically-based correlation studies specifically on bank privatization exist (Boehmer *et al*. 2005; Megginson 2005; Andrews 2005), but again of these relatively few focus on the global south (Boubakri *et al*. 2005; Clarke *et al.* 2005). Non-liberal comparative studies of global south bank privatization are practically non-existent (see Bátiz-Lazo and Del Ángel 2003; for a more historical example, see Del Ángel 2003). To my knowledge, no historical materialist comparative account exists.

Specific to Mexico and Turkey, a broad snapshot today looks something like the following. Mexico's population is around 105 million and Turkey's around 73 million. Mexico's level of industrialization and development of natural resources is relatively larger than Turkey's. For example, Mexico's 2003 GDP of $575 billion was almost three

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[10] A power bloc, in a Poulantzian sense, refers to the coordination and material presence of long-term politico-economic interests within the state. Power blocs are composed of a number of domestic and, increasingly, foreign capital fractions, to which state policy determination is organically linked (though not instrumentally) (see Poulantzas 2000, Part 2, Ch.1).

times larger than Turkey's $200 billion, but by 2005 Turkey's nearly doubled, reaching almost $359 billion, or just under half of Mexico's $768 billion. Mexico's GDP/capita was $5860 in 2003 and $7236 in 2005 while Turkey's was $3060 in 2003, but surged almost 63% to $4893 in 2005. However, 2003 GDP/capita in purchasing power parity has been closer with Mexico at 25.8 and Turkey at 20.6 (USA=100). Sectorally, Mexican agriculture accounts for 4.4 percent, industry 28.4 percent, and services 67.3 percent of 2003 GDP; Turkish agriculture is larger at 14.5 percent and industry is about the same while services are comparatively smaller 57.2 percent. Mexico overwhelming trades with the USA, which captures almost 90 percent of exports and provides just over 80 percent of imports. For Turkey, the EU captures about 53 percent of exports and provides about 50 percent of imports, of which Germany is a main partner at 19 percent of total exports and 13 percent of imports. Other major export destinations include the USA at just over 11 percent. Turkey also imports about 7 percent of total imports from the USA and Russia.[11] Turkey's recent rapid growth has led Andrew Vorkink, the World Bank Turkey Country Director, to hail it as a "Euro Tiger" (2005).

Historically, Mexico and Turkey have shared a number of defining characteristics. Each is located on the cusp of regional political economic powers. They have each shared a general post-war commitment to capitalist state-led development strategies. Both are now members of the OECD, Turkey since 1960 and Mexico since 1994. Like many developing countries, both Mexico and Turkey experienced a severe 1980s debt crisis. In both cases, the debt crisis served as an opportunity for liberalization advocates to begin restructuring their political economies away from import substitute industrialization (ISI) towards neoliberal export-oriented industrialization strategies. What resulted through the 1980s was a series of significant trade and financial liberalization reforms designed to more closely integrate Mexico and Turkey into the capitalist world market. Despite initial 1980s liberalization successes and being first generation reform exemplars, both experienced financial crisis in 1994.

Following crisis and recovery, liberalization pressures were maintained. By the late-1990s both Mexico and Turkey came to be considered important emerging markets. In 2000 and 2001, Turkey alone re-experienced severe financial crises. Regionally, Mexico's implementation of NAFTA in 1994 and Turkey's entry into the European Custom's Union in 1995 firmly rooted their development trajectory along neoliberal internationalization lines, a context which now dominates the develop of their financial and banking institutions. In 1999, Turkey and Mexico were drawn into the US Treasury inspired Group of Twenty (G-20) forum of Finance Ministers and Central Bank governors, signaling an ongoing commitment to neoliberal finance-based development.

While these broad similarities are important, what must also be explored comparatively is how a seemingly coherent neoliberal trajectory has emerged from widely different, even contradictory, historical processes.

In Mexico, following crisis and the 1982 banking system nationalization decision, bank re-privatization to domestic family groups was initiated in 1991 and completed within a few years. Re-privatization was followed by crisis in 1994-95, which was followed by the state rescue of the banking system again, followed by the encouragement and massive entry of foreign banking capital. Foreign ownership now exceeds 85% and is dominated by Spanish, Canadian, American, and British banking capitals. The radical shift in the banking system was overseen by the increasingly neoliberal orientation of the PRI and later PAN governments. Banking sector

[11] Figures from *The Economist*, "Pocket World in Figures 2003" and the *Economist.com*.

restructuring has seen fractions of productive capital as well as small businesses and families starved of credit.

The shift in ownership patterns in Mexico can be illustrated in a few specific cases, for example Banca Serfin, Banamex, and Banorte – three of Mexico's largest banks. The nationalized Banca Serfin was re-privatized in 1992, essentially to the same Mexican Sada family group who previously owned it. Then, post-1995 crisis, the Sada family-led group began selling some shares to foreign bank capital including General Electric, HSBC, and Spanish giant Santander – as initially allowed by Mexican legislation. By 1999, full foreign ownership was allowed and Santander took full control of Banca Serfin in 1999. Banamex, nationalized from the Legorreta family, was re-privatized in 1991 to Mexican financier Roberto Hernandéz and partners (including Alfredo Harp Helú). Emerging relatively well from the 1995 crisis, Banamex increased its market share by acquiring smaller banks, increasing the concentration of banking capital in Mexico. In 2002, US-based Citigroup completed its acquisition of Banamex in the largest emerging market financial-services transaction ever for $12.5 billion, illustrating the intensification of banking sector competition. Following its 1982 nationalization, Banorte was consolidated with another state bank and came to be the most profitable Mexican state bank. It, too, was re-privatized in 1992 to a Monterrey-based group headed by Roberto Gonzalez Barrera. Since then, Banorte has expanded domestically acquiring failing banks and has come to be one of Mexico's largest banks, while remaining domestically-owned. While increasing the concentration of banking domestically, Banorte has begun to internationalize more aggressively by purchasing small, regional American banks to help capture the lucrative US-Mexico remittance market.

In Turkey, the 1980s saw the liquidation of a few private banks, but no nationalization *per se*, and the continued presence of important and long-held state banks. In the 1990s, privatization to domestic family industrial groups was initiated like in Mexico but proceeded at a snail's pace given a different domestic power bloc configuration and semi-peripheral location in the world market. The 2000 and 2001 crises proved to be an important opportunity for neoliberal advocates to accelerate state restructuring, privatization, and foreign capital entry (as the 1994-95 crisis did in Mexico). The Turkish state, nonetheless, has retained a few large and important state banks due to a mix of structural limitations and domestic social resistance (about 35% of banking sector deposits). However, under the auspices of a variety of coalitional governments and a majority government currently in power, these remaining state banks have been restructured by neoliberal state technocrats to operate *as if* they were private, profit seeking operations. More to the point, they have been or are being readied for sell-off. This is so despite showing public banking profits of $2.7 billion in 2004 and $2.9 billion in 2005. Foreign interests have been minimal, but have gained significant momentum of late (7% foreign ownership in 2004 and about 14% presently), including Italian, British, Israeli, Belgian, French, and American bank capital.

In Turkey, one can look to the privatizations of Sümerbank, Denizbank, Vakifbank, and Halkbank. Sümerbank was Turkey's first significant bank privatization in 1995, sold to the domestic group Garipoglu for $103.5 million. Sümerbank subsequently failed following the 2000-01 crises, was taken over by the state, merged with five other banks, and was re-privatized in 2002 to another domestically-owned bank, Oyakbank. Originally, state-owned Denizbank was merged with another state-bank, Emlak Bank, in 1992, but then separated out and sold in 1997 to a domestic family group, Zorlu Holdings, for $66 million. Denizbank has since expanded significantly domestically and is now seeking to internationalize under the guidance of J.P. Morgan. Vakifbank has been through several failed attempts to privatize since the late-1990s and has only been partially privatized through an IPO (25%) in November 2005. While indirectly state-owned, it has also been attempting to internationalize by seeking opportunities in, for example, Iraq. Finally, Halkbank remains state-owned and is Turkey's second largest state bank. The Turkish government announced plans in March 2005 to have a Goldman Sachs-led consortium advise on its immediate sale. There is both domestic and foreign banking capital interest being expressed in Halkbank. The largest state-owned bank, Ziraat Bank, remains so but also has been targeted for privatization as part of IMF conditionality.

It is important to recognize, then, that the banking sectors in Turkey and Mexico have had distinct historical patterns of mixed public, private, domestic, and foreign bank ownership. Likewise, the practices, purposes, and meanings of banking have varied depending on the historical conjuncture. Now, with a variety of state technocrat and domestic and foreign capitalist actors pressuring for the consolidation of neoliberalism domestically, the meanings of ownership and purposes of banking have shifted such that they are no longer the same as they were even twenty years ago. This is especially evident in Turkey where, regardless of ownership, all banks have moved towards adopting an increasingly neoliberal logic of accumulation – a situation of neoliberal dominance not easily captured or understood within liberal and institutionalist analytical frameworks. This has occurred amidst capital account liberalization, Central Bank independence, and ongoing processes seeking to institutionalize neoliberal restructuring, or the formal (not substantive) separation of the political and economic moments, which has deepened the capitalist world market.

Neoliberalism is not to be seen as a sudden shift, therefore, but as a process that is still emerging (a) from a pre-existing state-dominated developmental context, which is nonetheless not quite dead in Turkey, and (b) within a context of almost three decades of neoliberalization. That is, with the deepening of neoliberal capitalism, what is unmistakable over time and across space are the parallel processes of intensification, concentration, and centralization in the banking sector. This means that neoliberalization today and associated relations of power do not have the same meaning and cannot be interpreted in the same light as it was when it first emerged in the late-1970s and early-1980s. Albeit in different ways, bank privatization processes have thus altered the relationships among (a) the state and the banking sector, (b) the state and the capitalist world market, and (c) the power bloc and popular classes within the state.

How does one, then, begin to make sense of and organize the causes behind bank privatization and the effects of neoliberalism on the banking sectors comparatively, especially given unique, "most different" histories across time and space? What does historical materialism have to offer comparative inquiry? How, following McMichael, do we methodologically integrate theory and history and avoid "abstract individuality" and "abstract generality", while trying to grasp a nuanced understanding of diversity among unity (1990, 395)?

III) A Historical Materialist Comparative Approach to Bank Privatization

To explore the singular and multiple comparative forms of the state-world market analytical nexus, I propose using a set of four interrelated concepts as the basis of a comparative historical materialist study. Drawing on the concrete experiences of Turkey and Mexico, these are as follows:

1) <u>Material Basis: Power Blocs and World Market Competitive Imperatives</u>

The reorganization of power blocs in Turkey and Mexico has involved changes in intra-class compromises (among commodity, productive, money, and speculative capitals) and inter-class compromises (among capitals and labor), as well as their shifting relationships with political parties and state technocrats in the state. Neoliberalism has emerged because of domestic reorganization in the dominant fractions of capital from domestically-oriented productive capital to a greater synthesis of financial and export-oriented productive capital via the sell-off of state-owned banks to large commercial and industrial family groups in Turkey and Mexico. So too, then, have ownership patterns changed and been marked by (a) the *internalization* of foreign capital and (b) the *internationalization* of domestic capital with the reorientation towards exports and finance. This shift is cause and effect of state and power bloc individual and collective agents' decisions, the particular strategies and processes varying greatly as they must be grafted onto pre-existing class compromises and institutional frameworks, in addition to spatial and discursive patterns.

Turkey's and Mexico's distinct processes of state and power bloc reorganization have helped deepen and intensify international competitive accumulation imperatives in the world market. Relative to banking, the shifting dynamics of ownership and control have helped allow opportunities for speculative financial gains. Underpinning the above is an understanding of how class and class struggle, as well as individual and collective agency, continue to be important material forces in change and central categories of analytical inquiry into socio-political affairs.

2) Institutional Dynamics: Internationalization of the State and Financialization

Power bloc reorganization has been accompanied by the *internationalization* of the state institutional apparatus in Turkey and Mexico.[12] Institutional reorganization has been characterized by new policy matrices that mediate and support international competitiveness, themselves vital to neoliberal state reorganization (Albo 2005, 76). Post-1980s debt crisis processes of privatization, deregulation, and liberalization have institutionalized the opening up of the Turkish and Mexican economies to greater and more rapid flows of money, capital, and credit. Turkey's and Mexico's financial liberalization policies have been similar insofar as initial structural adjustment cut deeply and broadly (Lukauskas and Minushkin 2000). Second generation reforms have emphasized the importance of an appropriate institutional regulatory framework. However, the specific strategies used to neoliberalize pre-existing institutional frameworks have varied greatly.

For example, in Mexico neoliberal reforms were initiated by the waning PRI within Mexico's one-party political system while NAFTA was directly negotiated by President Salinas. In Turkey, broad disputes in the lead up to the Customs Union negotiations were disallowed, but a governing coalition between the True Path Party (DYP) and the Republican People's Party (CHP) (1993-1996) assumed responsibility for the bargaining and completion of the CU agreements with the EU (Eder 2001, 44).

Relative to banking and the internationalization of the state, both Turkish and Mexican banking institutional frameworks have been progressively removed from democratic and political structures by augmenting regulatory autonomy. In Mexico, the Central Bank regulates banking and enforces credit controls and has been officially independent since 1994. Legislation first allowed partial foreign bank capital entry in 1994, then fully in 1998. As of March 2006, the National Banking and Securities Commission (CNBV), the Ministry of Finance and Public Credit (SHCP), the Bank of Mexico, and the Bankers' Association were finalizing regulatory changes to the Credit

[12] The internationalization of the state involves each "state's acceptance of responsibility for managing its domestic capitalist order in way that contributes to managing the international capitalist order" (Panitch and Gindin 2003, 17; see also Poulantzas 2000, 117; 181 and Poulantzas 1974, 73; 81).

Institutions Law to institutionally enhance and legally regulate private, largely foreign, banking autodetermination. In Turkey, the Treasury maintained control over banking until the *Banks Act* (1999) was passed in order to restructure state banks, strengthen private banks, improve efficiency, strengthen the regulatory and supervisory framework, and remove political influence through the creation of the Banking Regulation and Supervision Agency (BDDK).

Together, the internationalization of state and capital have facilitated financialization and speculative capital accumulation as an increasingly structural feature of the world market. State-composed IFIs (e.g., The IMF and World Bank) have conditioned this transition by monetarily and technically supporting the transition internationally amidst calls for greater efficiency and profitability. Crisis management has become an indispensable role of states and international institutions (Harvey 1999). While IFI-based neoliberal policies have guided post-1990s financial crisis recovery, the lack of perfect compliance to structural adjustment has been a constant thorn in the sides, and bludgeon, of neoliberal advocates. At the same time, an increasing need and willingness to coordinate crisis management in the world market has appeared among the three major regional blocs, with the US Treasury and IFIs taking the lead. Having been tested by the series of post-1990s financial crises, crisis management has now emerged as functional to neoliberal restructuring (Chhibber 2004; Rude 2004, 70).

3) Spatial Dynamics: Intensification, Concentration, and Centralization of Capital

Financialization and bank privatization have facilitated the emergence of new spatial patterns in the circuit of finance capital characterized by the intensification, concentration, and centralization of money, credit, and finance capital. Domestically, Turkey and Mexico have been subjects and authors of this tendency although the specific form has varied, including spatial variations in the redistributive and developmental role of public ownership in Turkey versus private and foreign in Mexico. While both banking systems are highly concentrated, profitability and efficiency imperatives have shifted bank strategies and bankings' spatial configurations differently in each country (e.g., productive clusters, Öz 2004). So too have remittance payments from the global north to south help to drive bank internationalization strategies. This will become increasingly important as Turkey nears EU accession, as the intense competition for foreign banking capital entry into Turkey now signals.

Likewise, financialization of the world market has borne witness to similar processes as financial services are increasingly concentrated in core regional cities like New York, London, and Tokyo (Martin 1994). For Martin, "while the speed of information communication has annihilated *space* … it has by no means undermined the significance of location, of *place*." (Martin 1994, 263, emphasis in original). What is likely is that the forces of decentralization and dispersal as well as centralization and concentration will form the dynamic tension shaping the developing global financial architecture. Financialization is thus the current context and thus conditions Turkey's and Mexico's re-insertion into global circuits of capital and affects domestic developmental and regional or inter-bloc strategies, including a clear intra-state regional divide between Mexico's north and south and Turkey's east and west. In Turkey and the Middle East, attempts to establish Istanbul as a regional centre for 'Islamic' capital flows will institutionalize new patterns of capital flows in the region

4) Ideational Dynamics: Privatization and Liberalization Discourse

Cutting across, and indeed linking many of the concepts above, are questions of discourse and ideas in the processes of bank privatization and transitions to neoliberalism. Domestic and foreign power bloc agents in Mexico and Turkey have at different times and in distinct ways promoted the idea that, for example, 'there is no alternative' to neoliberal restructuring in order to mobilize support and minimize opposition to neoliberalization. These ideas are intended to help shape the way individual and collective agents interpret and act within their wider social context (Hay 2002, 166). In what critics and advocates of neoliberal reform see as opportunity in crisis (Cypher 1989; Chhibber 2004; Rude 2004), the capacity of agents to promote certain times as conjunctural and requiring a break with the past is often central to garnering social support (Hay 2002, 166). After thirty years of material, institutional, and spatial restructuring, neoliberalism, and associated progressive competitiveness, profitability, and efficiency imperatives, is indeed the dominant discourse today.

The set of conceptual variables above allows one to examine comparatively and historically "most different" cases across time and space in the world market in order to come to a more realistic causal sense of bank privatization and its effects.

Conclusion

Capitalism does not merely exist in one state, and in another, and in another, but it internally connected by the social relations of capitalist production in the world market, despite concrete events occurring endogenously.

It has been the thesis of this paper that neither liberal nor institutionalist approaches are satisfactory for understanding such aspects of neoliberalization as bank privatization. I have argued for an alternative historical materialist approach. However, by way of conclusion, I would like to point to another recently presented alternative by Adam Przeworski, one that exemplifies the worst errors of both liberalism and institutionalism.

Whereas Przeworski once offered important insights into comparative analysis (Przeworski and Teune 1970), in his recent engagement with new institutionalist economics and Marxian research programs, he has sought an end to the comparative debate putting the question of what drives development front and centre (2004). He argues that in the intersection between institutions and development, "[e]verything, and thus nothing, is 'primary'. The only motor of history is endogeneity" (2004, 168). For Przeworski, all manners of endogenous imperceptible shocks can lead to all sorts of divergent developmental outcomes (2004, 182-4). In this, he hopes to reset the limits of investigation: "the most we can hope for is to identify their [institutions and development] reciprocal impacts." (2004, 185) What results is an individualist 'development by endogenous contingency' thesis.

In this turn of postmodern proportions, Przeworski's thesis, taken alone, takes us nowhere in understanding capitalist development. In seeking to distinguish the role of endogenous contingency, he adopts both liberal ahistorical individualism and rejects any wider structure outside the nation-state like institutionalists – two approaches I have sought to overcome above. One is left in Przeworski with the untenable thesis that individuals make history in the domestic conditions of their own choosing.[13] What is most telling of Przeworski's critique of NIE and Marxism, then, is not so much what he says as what he does not say, which involves a clear acceptance of methodological individualism and neoclassical assumptions about individual rational actors.

[13] To illustrate, he suggests Costa Rica's staunchly anti-communist, quietly socialist history is due to one Costa Rican elite going to the University of Louvain rather than Paris, which lead to a coup, which lead to Costa Rica's respect for democracy and equality (2004, 184). This is a patently absurd oversimplification that denies a rich tradition of class-struggle and resistance within a wider context of America's 'manifest destiny' and transitions to capitalism (Marois 2005).

However, what we see in the case of Turkey compared to Mexico is that the agents of bank privatization acted within a certain historical logic, shaped by material, institutional, spatial, and discursive dynamics. These countries are *not* merely discrete units; capitalism does not merely exist in one country after another like self-contained nodes. While Turkey and Mexico are indeed 'most different' cases (the most powerful comparative approach, as Przeworski and Teune once pointed out) they are nonetheless internally connected within the capitalist world market and internally connected to a certain logic of accumulation that mediates agents' choices. One cannot separate Turkish privatization processes from flows of capital and the accumulation imperative in the world market, global relations of power, the disciplinary power of credit, American imperial power, and the need for capital to expand. Thus, as Albo (2005) rightly argues, one must consider the wider social relations of capitalism as conditions for the existence of specific institutions, not institutions being determinant relations in themselves. Capitalism, as we know, emerges in a world not of its own making while world market processes of combined and uneven development integrate and differentiate societies. The integration of local and specific forms of exploitation and appropriation are legitimated and supported by states, all of which result from individual and collective agents' strategies in specific places located within a wider context of internationalization. It is in this sense that the causes of bank privatization and the effects of ongoing and associated neoliberalization process can be understood through the emergence of a variety of 'most different' forms of neoliberal states. Otherwise, one can make no sense of the current global economy. In this, an agency-centred and comparative historical materialist approach is an important alternative to liberal and institutional analyses, not to mention radical endogeneity *cum* methodological individualist approaches.

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