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Automatic teller machines in Istanbul. MURAD SEZER/REUTERS

Financial Citizenship and the Hidden Crisis of the Working Class in the "New Turkey"

Basak Kus

Substantial political, economic and social changes have taken place in Turkey since the early 2000s. Much of this transformation has happened on the watch of the Justice and Development Party (best known by its Turkish acronym, AKP), which has been in power since 2002. Recep Tayyip Erdoğan, founder of the party and president of the country since 2014, has proclaimed several times that the old Turkey is no more and a new Turkey has taken its place.

An important but understudied aspect of this new Turkey is the rise of finance and credit markets, and Turkish households' increasing embeddedness in them. This phenomenon is not simply economic, though it may seem so at first. It has important implications for the politics of class and inequality, and therefore, for electoral politics.

The rise of finance and credit markets is a global trend. Many scholars see this development as part of a larger political-economic reconfiguration whereby "the basis of prosperity shifted from the social democratic formula of working classes supported by government intervention to the neoliberal conservative one of banks, stock exchanges and financial markets."[1] During the post-war era of "embedded liberalism,"[2] governments intervened to provide citizens with economic security and even prosperity, but now in the era of neoliberalism, citizens turn to banks and other financial institutions to make ends meet or to enhance their lifestyles. In other words, financial citizenship has taken hold where social citizenship has been undermined.

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Financialization and credit market expansion in Turkey must also be seen as part of the country's neoliberal transformation. The past few decades have witnessed a reformulation of the relationship between the state, banks and citizens. Access to credit made it possible for Turkish citizens to enjoy a wide variety of products and services that they could not otherwise afford. It compensated for stagnant wages, and blurred once sharp class boundaries. This pattern of credit-reliant consumption is hardly sustainable, however. Middle- and lower-income Turkish households have become highly vulnerable to macroeconomic risks and shocks due to their burgeoning levels of indebtedness.

The AKP government has been applauded, and rewarded at the ballot box, for its management of the economy and for improving the quality of life of the average Turk. Yet, upon closer inspection, it seems that the economic wellbeing for which the AKP has taken so much credit is not totally due to higher productivity and wages, but instead to expanding consumption and credit use. Underneath the surface may be a hidden crisis, the biggest casualty of which would be Turkey's working population.

Financialization in Turkey

Broadly speaking, financialization is the heavier presence of financial institutions and transactions in the overall economy and the everyday life of citizens. In Turkey, financialization of the economy started in the early 1980s with a set of deregulatory policies. Until that time Turkey had an inward-oriented economy, a large public sector and an interventionist state. It aimed at generating rapid industrialization through five-year development plans. State-owned enterprises accounted for about half of total investment in the economy at the end of the 1970s. Some of these enterprises were overstaffed and inefficient, posting sizable losses that put a strain on the government budget. The trade policy focused on import-substitution and lacked mechanisms to boost exports. Trade deficits were chronic and balance of payments crises were a regular occurrence. The financial system remained highly regulated in this period. The government fixed interest rates for both deposits and credits, subjected financial earnings to heavy taxation and maintained a fixed exchange rate policy. In short, the combination of three major institutional instruments—public enterprises, a restrictive trade regime and financial repression—produced a not-so-efficient mixed economy.[3]

Starting in the early 1980s, successive governments undertook a set of reforms including privatization, trade opening, and deregulation of labor and financial markets in order to transform Turkey into a liberal market economy. By the end of the 1990s, about 90 percent of the employment and 80 percent of the value-added was already taking place in the private sector, foreign trade volume had more than doubled, and the financial sector had greatly expanded. The results of financial liberalization were particularly visible in the banking sector. In only two decades, from 1980 to 2000, the number of banks nearly doubled, according to the Bank Association of Turkey, and the total banking assets increased more than sevenfold. As in most developing countries, however, economic liberalization reforms in Turkey were carried out swiftly and unsupported by robust regulatory and macro-economic policies. Problems began to appear, particularly in the financial sector. Having been deregulated without effective supervision, the banking system became very fragile, very quickly.[4]

During the 1990s, banks heavily invested in high-yield government securities. The annual real interest rate for government securities averaged over 30 percent in this period. It is important to note that public-sector borrowing from domestic banks was not itself a new practice. But with a liberalized financial system, it reached new heights. Turkish banks, public and private, borrowed from international markets to buy the government paper and pull in high profits. But the large foreign loans left the banks exposed to currency fluctuations and liquidity risks.[5] These vulnerabilities came ashore with the 2001 financial crisis. The Turkish banking sector lost large amounts of money following the devaluation of the Turkish lira, due to their unfavorable foreign currency position.[6] During the years 1999–2001, the Savings Deposit Insurance Fund of Turkey had to rescue 18 banks. The cost of the banking crisis to the Turkish economy was steep—public debt rose to over 70 percent of gross domestic product in 2001.

The AKP, led by Erdoğan, won the November 2002 elections against this gloomy economic backdrop. Despite its Islamist roots, the AKP embraced globalization and the project of accession to the European Union, and continued to advance the neoliberal agenda. During the AKP's first term (2002–2007), real GDP rose by 7 percent annually, which many national and international observers hailed as a swift recovery from the crisis. In this period of high growth and rising consumption, the financial sector began to expand and Turkish banks, in particular, began to play a bigger role in the lives of citizens.

Credit, Inequality and Class

Using credit for consumption is a relatively recent phenomenon in Turkey. Until the 1980s, the act of getting a loan carried a cultural stigma—it was something one would do only in times of financial hardship. Stores offered installment plans to consumers for certain products, but that was the extent of Turkish households' engagement with the credit system. In the 1990s, faced with stiffer competition in a deregulated environment, major Turkish banks began to develop their retail banking units and offer consumer credit, but both supply and demand remained modest. For banks, investing in government securities was a far more lucrative business.

The 2001 financial crisis and the subsequent policy changes decreased banks' opportunities to make profits from financing the public deficit, and banks were compelled to explore other venues. Soon the banks made a decisive turn from financing

Marchers bang on pots to protest IMF-backed neoliberal reforms, Istanbul, April 1, 2001. REUTERS PHOTOGRAPHER

government consumption to financing household consumption. They launched aggressive advertising campaigns so as to change the prevailing norms around credit and debt, and to gin up consumer demand for their expanding lines of credit products. In the 2000s, credit use became a fully legitimate aspect of middle-class existence. Total consumer credit as a percentage of GDP increased more than tenfold[7]—from 1.8 percent to 18.7 percent—and the number of credit card users reached more than 50 million, all in a decade's time, between 2002 and 2012.

Credit is a powerful political tool. It affects the dynamics of class and inequality in at least two major ways. First, having access to credit boosts households' consumption capacity. It allows for the purchase of houses, cars, and a variety of products and services, and helps decrease the discontent that the lower and middle classes might have with their actual level of income and purchasing power. An important consequence is that credit alters people's perceptions of the class structure and their place in it.[8] In a world without credit, people's class positions can be inferred from their consumption, and their consumption from income. Credit decouples these linkages. It permits people to consume beyond their means, and makes it harder to distinguish the haves from the have-nots. All in all, it mitigates class and status differences, and casts the existing level of social welfare in a positive light. It is no surprise that, in advanced nations like the United States, expanding access to credit was part of the progressive political agenda in the post-war era.

Second, credit changes the way governments deal with inequality.[9] During the past two decades, the rise of credit-based welfare enabled governments across the world to push forward a neoliberal agenda without much resistance from citizens who become subject to more risk and insecurity in the process. Throughout the post-war era, governments had used tools of social policy to manage the tension between the vagaries of markets and citizens' demands for security and predictability in their lives. States took on debt to create jobs, to redistribute wealth and income, and to provide social security. The era of neoliberalism has seen a retrenchment of government intervention in these areas. There has been a shift from socialization of risk to privatization of it—individuals and households themselves began to incur debt to pay the bills or upgrade their standard of living.

The AKP era in Turkey must be reconsidered from this angle as well. The expansion of credit boosted citizens' purchasing capacity and material welfare. And it partly explains why the AKP government remained able to push forward a neoliberal agenda without creating much discontent among the larger part of the citizenry. At the same time, credit-reliant consumption and welfare exposed Turkish

citizens to new forms of socio-economic vulnerability associated with increasing indebtedness.

Credit-Based Welfare

Since the advent of Turkey's multi-party system in 1946, the AKP is the only party that has been able to keep effective majority status for more than a decade. In the 2002 elections, shortly after it was founded, the AKP secured 34.3 percent of the popular vote, a large plurality that gave it control of Parliament, due to the Turkish electoral system whereby a party must capture 10 percent of the nationwide vote to get a seat. In the 2007 parliamentary elections, it increased its share of the vote to 46.6 percent. In the 2011 parliamentary contests, it got 49.8 percent of the popular vote, and in the 2014 mayoral elections, 60.7 percent. In August 2014, in the first direct election of a Turkish president, Erdoğan won 51.8 percent of the popular vote. The June 2015 general elections were a setback, but even then the party managed to get 41 percent of the tally, and in any case it recovered its parliamentary majority in the snap elections Erdoğan called in November. Much has been written about why the party consistently does so well at the ballot box. It is generally agreed that economic trends are the main reason. There are several components to this "It's the economy!" thesis.

The first one has to do with the trickling down of economic growth. After the 1990s, also known as the "lost decade," characterized by severe macroeconomic instability and negative growth rates, Turkey experienced its longest period of uninterrupted economic growth in the 2000s, which averaged 6–7 percent per year, while annual inflation plummeted. The high growth-low inflation environment helped the AKP to broaden its electoral appeal. As Ziya Öniş argues, the fact that inflation was reduced to single digits is itself a significant development, since the hyperinflation that Turkey experienced during the 1980s and 1990s tends to penalize the poor.[10] But more importantly, the benefits of economic growth also seem to have been widely shared. During the 2000s poverty rates declined and income inequality contracted. According to data from the Turkish Statistical Institute,[11] the proportion of citizens living on less than $4.30 a day fell from 30.3 percent in 2002 to 2.06 percent in 2013.

A second set of arguments focuses on how social benefit provision has operated in the period of AKP-managed neoliberal economic growth. There have been increases in government expenditures in certain areas, particularly health, which have been supported enthusiastically by the electorate. But informal channels of social welfare provision have widened as well. The AKP managed to bolster its political support among the needy in cities by building neighborhood networks, through face-to-face interaction, and distributing basic goods and services.[12] The marriage of neoliberal economic policies with a "communitarian" social policy outlook contributed to the AKP's electoral strength among the urban poor.[13]

Financialization and expansion of credit markets must also be added to the list of economic factors that inclined Turkish voters toward Erdoğan's party. The expansion of credit markets has encouraged bigger-spending lifestyles and ameliorated inequality, while making the remaining disparities seem innocuous. As a Turkish banker put it: "The middle-class 'feel' in Turkey has been engineered through debt.... Despite earning the minimum wage, tens of thousands of households were able to acquire nicer phones, better furniture, electronics…all thanks to bank loans and maxed-out credit cards."[14]

The Dark Side of Credit

There are limits to this credit-reliant, consumption-driven growth. On the one hand, credit fills the gap between households' consumption aspirations and their stagnant incomes. On the other hand, for many middle- and lower-income families credit reliance leads to heightened socio-economic vulnerability from higher debt. In the US, this indebtedness has been called "the hidden crisis of the American middle class."[15] Turkey is likewise witnessing the emergence of a "debtfare system"— a set of institutional and ideological practices aimed at regulating and normalizing the growing dependence on consumer credit to meet basic needs.[16]

Income inequality and poverty in Turkey are relatively high. To quote a 2014 Organization for Economic Cooperation and Development report:

- Disposable household income in Turkey is about 45 percent of the OECD average. Turkey also has the third highest level of income inequality and the third highest level of relative poverty in the OECD area. One in every five Turks is poor, compared with just above one in ten on average across the OECD.
- One out of three Turks report that they cannot afford to buy sufficient food, compared with an OECD average of less than one out of seven.
- Public social spending in Turkey at 12.8 percent of GDP is substantially lower than the OECD average of 21.8 percent. Most of the social spending is related to health, old age and survivors benefits, while support for the working-age population is very low.[17]

The rise in household expenditures during the 2000s has been higher than the rise in incomes, thereby decreasing savings and fueling credit reliance. Particularly among low-income households, the ratio of household debt to disposable income has increased a great deal.

As of 2010, based on Bank Association of Turkey data reviewed by Turkish economist Elif Karaçimen, more than 40 percent of borrowers of consumer loans were people making less than 1,000 lira (roughly $600) per month. A survey Karaçimen carried out

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among metal workers in Istanbul showed that nearly half of her respondents regularly took out bank loans so as to be able to make payments on other debts, mostly rent and loans from other banks.[18] Her research also found that the most frequently mentioned reason for using credit cards was to buy food or other necessities. For many working-class citizens in Turkey, becoming a part of the debtfare system is not a choice but a structural imperative.

There is also a political side to high levels of indebtedness. Debt is a disciplining tool that induces conformity with the logic of the economic and political system in place.[19] In the aftermath of the November elections, a worker who resides in the Gebze industrial area wrote an illustrative letter to a left-wing newspaper.[20] The worker explained that although he was not sympathetic to the AKP's politics, he nonetheless had voted for the party. As someone who had bought a house on a 15-year loan, he went on, he was concerned that if the AKP's majority government were voted out of office, the ensuing political instability would quickly turn into economic turmoil, buffeting working folks like him who are hanging by a socio-economic thread.

Looking at the rise of credit markets not only helps to draw a more complete picture of the neoliberal economic transformation in contemporary Turkey, but it also helps to explain the AKP's political success—and to reveal its shaky economic foundations. ■

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