RESEARCH ON MONEY AND FINANCE

Discussion Paper no 9

Emerging Market Bank Rescues in an Era of Finance-Led Neoliberalism: A Comparison of Mexico and Turkey

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23 March 2009

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Abstract

In the current conjuncture, the international community is gripped by the problem of how to mitigate the impact of financial crisis on emerging markets while curbing the drift towards protectionism. The historical experiences of Mexico and Turkey in this regard are instructive. Both banking sectors have suffered harsh crises since the mid 1990s, were rescued, and then restructured without closing off their economies. To date, liberal and institutional political economic analyses of emerging market have mostly framed the problem with principal reference to crisis and the formal market-enhancing institutions of banking. The debates have then revolved around how either greater or lesser exposure to financial imperatives can improve stability and resolve developmental challenges. By and large, these debates have not addressed the problem of bank rescues and the underlying social relations of power that shape changes to the institutions of banking. The following, by contrast, compares Mexico's 1995 and Turkey's 2001 bank rescues from a historical materialist framework. Therein, the rescues are interpreted as historical processes that have revamped pre-existing institutionalized sets of social power relations. Above all else, the impact of banking crisis-driven rescues has meant the historical-structural deepening of financial imperatives in Mexican and Turkish society. This has had the socio-political consequence of reinforcing the power of finance and further eroding once legitimate channels of popular influence over national development. The experiences of Mexico and Turkey have implications for the international community's response to the current world financial crisis.

1. INTRODUCTION

As late as September 2008, experts continued to suggest that emerging markets like Mexico and Turkey might avoid the sub-prime turmoil being experienced in the US and UK. But the situation worsened in October following the collapse of Lehman Brothers and, in the words of IMF Chief Strauss-Kahn, we came very close to "a total collapse of the world economy". Plummeting currencies, capital flight, falling commodity prices, job losses, and stock market collapse dispelled any hope that the wave of financial havoc might not hit the shores of the global south and spill over into a world financial crisis. The American, other advanced industrialized countries', and Chinese rescue packages were the most immediate concern. Once approved in early 2009, the attention of international financial institutions (IFIs) and world leaders turned to the worsening prospects of the emerging markets, which are expected to be hit hardest in 2009 and urgently need to restore confidence in the financial sector, according to an early February 2009 joint IMF-OECD-World Bank statement. Within weeks, the Group of Seven (G-7) reinforced this concern, underscoring that restructuring damaged banks and cleaning up the financial sector is vital.

The importance placed on banking and its rescue by the IFIs and G-7 is not misplaced: "The banking system is the bloodline of the economy. Without that system, nothing can happen." More than ever before, banking is an absolutely central activity in society. Chequing, savings, credit cards, and payment services for water, gas, and so on, underpin one's ability to work and participate in day-to-day life. Banks also coordinate longer-term plans involving loans, mortgages, retirement, and even the processing of remittances from family members abroad. In many emerging markets, moreover, banks handle large amounts of official government debt, are formally linked to the largest economic groups, and serve to financially integrate different regions and social strata domestically and internationally. The list goes on, with the point being that to have any degree of economic security – at the level of individual, collective, firm, or state – without some relationship to a commercial bank is unimaginable. And this is why the possible social ramifications of the current banking crisis and rescue are of such political concern internationally.

In contrast to past conjunctures of this magnitude whose outcomes were shaped almost exclusively by the most powerful state and IFI actors (for example, the Bretton Woods agreement, the 1980s Volcker Shock, and the 1997 East Asian meltdown come to mind), the current conjuncture represents a fracture in this closed hierarchy of interstate relations. This is because major IFIs and the US have asked that the largest emerging markets contribute to resolving the crisis through the Group of Twenty (G-20) – a forum of advanced industrialized and big emerging market finance ministers and central bank governors established in 1999. The current and former World Bank presidents, Robert Zoellick and James Wolfensohn, have gone so far as to say the G-20 should replace the G-7. This unprecedented call to multilateralism is surely related to what even conservative commentators like the Banker magazine have suggested, namely that the "much vaunted laissez faire system that politicians proclaimed in the late 1970s as the solution to society's ills has fallen into disrepute. And while it still stretches the imagination to believe neoliberalism is on the precipice of collapse and that emerging market leaders will define the agenda and outcome, any coordinated response to the world financial crisis will draw on the lessons learned from past banking rescues and restructuring in the global south. This is because these earlier crises occurred in the context of finance-led neoliberalism (defined below) and, most importantly for the G-20, the rescues have proven capable of staying within these confines. When all is said and done, that is the message being hammered home by the US and the IFIs: any new regulatory reforms must not "forfeit the economic benefits of financial innovation and market discipline", according to US Federal Reserve Chair Ben Bernanke.

Mexico and Turkey are two of the most significant emerging market cases of neoliberal banking rescue since the 1990s. Both are existing OECD members that aggressively promoted trade and financial liberalization in the 1980s, suffered from costly banking crises, and then restructured without sacrificing market discipline or bank profitability. The 1995 Mexican banking crisis was the first major neoliberal banking crisis and the 2001 Turkish crisis the most recent among emerging markets. What's more, their banking sectors have proven remarkably resilient to the impacts of the current crisis – even though their economies have not. The IMF suggests, for example, that the world crisis will have a "modest" impact on Mexican banks because they have become well capitalized and highly profitable (IMF 2009, 26). The Turkish banks have also remained stable and profitable, leading World Bank President Zoellick to praise its financial sector as "shock-proof". The Turkish Minister of the Economy has even pressed the G-20 to adopt aspects of its handling of the 2001 Turkish crisis in response to the current crisis. Perhaps one of the most extraordinary things about Mexico and Turkey in the neoliberal era is how their governments and financial managers have proven exemplary at mobilizing crisis to advance market-oriented possibilities (Marois 2008; Yılmaz 2007).

When cast in this light, generalized claims that market and financial discipline is in disrepute given the crisis seem to misguide when, in fact, the dominant responses are more consistent than not with the historical forms of finance-led neoliberalism found in places like Mexico and Turkey. In this line of reasoning, I argue that the impact of banking crisis-driven rescues has meant the historical-structural deepening of financial imperatives in Mexican and Turkish society. This has had the socio-political consequence of reinforcing the power of finance and further eroding once legitimate channels of popular influence over national development. This, too, appears so with the G-20 response to crisis thus far.

The argument's point of departure therefore does not begin with debating the causes of banking crises. Rather, this paper compares the changing institutionalizations of social relations of power by working back and forth among the historical experiences of Mexico and Turkey. At one analytical level, this involves the state financial apparatus and how the bank rescues have tended towards the socialization of debt and risk, the rationalization of the banking sector, and the internationalization of the financial apparatus. At another analytical level, this involves the domestic banking markets and how the sectors have tended towards the centralization of banking institutions, the concentration of bank assets, and the intensification of competitive banking imperatives over the long-term. The bulk of the paper thus analyzes the historical modalities of banking rescue and wider market structures relative to the social deepening of finance-led neoliberalism. These two main analytical sections are preceded by a literature review and an overview of pre-crisis banking in Mexico and Turkey. By way of conclusion, the final section comments on the G-20 response to the current financial crisis.

2. INTERPRETING EMERGING MARKET BANKING CRISES

How have emerging market banking crises and rescues been interpreted? With some oversimplification, it is helpful to locate the main debates within two broad camps (La Porta et al. 2002 and Stallings 2006 adopt similar distinctions). On the one hand, Weberian and Keynesian-inspired analyses advocate on behalf of extra-market institutional coordination and a slower pace of financial reform over the determinacy of the market forces (McKeen-Edwards et al. 2004). On the other hand, Smithian and Hayekian-inspired analyses advocate for those institutions that enable greater market coordination and only limited political interference so as to protect or speed the pace of financial reform (Barth et al. 2006). There are debates within and across these camps, but each share a concern for creating the right mix of policy and institutional dynamics to enhance market-based developmental processes (Allegret et al. 2003).

That said, Weberian analyses tend to critique the shape of liberal financial orthodoxy since the 1980s. Ziya Öniş (2006), for example, argues that the violent ebbs and flows of capitalist development can be overcome given the right policy formation. He reads the 2001 Turkish banking crisis as rooted in the premature liberalization of financial and trade flows and due to IMF policy orthodoxy not tailored to the Turkish experience. Öniş is uncertain whether the crisis-driven reforms can yet lead to virtuous cycles of growth, but he is hopeful that the European Union (EU) and IMF will serve as firm policy anchors for future reforms that can create sustained and crisis-free growth. Ümit Cizre and Erinç Yeldan (2005), while emphasizing more Turkey's fragile and shallow financial markets, likewise suggest that premature exposure to foreign competition led to the 2001 crisis. By implication, more time and more mature markets might also avoid crisis in the future. Celso Garrido (2005) follows a similar line of inquiry in his critique of the Mexican liberalization experience, which he too sees as flawed. Taken together, these studies reflect an increasingly dominant theme in the political economy of finance literature – namely, the importance of sequencing financial reform (Johnston and Sundararajan 1999; Stallings 2006). By rejecting liberal orthodoxy, this literature tends to reject 'one size fits all' applications of liberalization policy (cf. Rodrik 2008).

The second camp advocates in favor of liberal financial orthodoxy but without rejecting the state institutions needed to support open markets. Stephen Haber (2005), for example, draws on Hayekian constitutionalism and Douglass North's (1990) concern for the institutional protections of private property rights. In the case of Mexico, Haber is critical of how the president can "reduce property rights at will" (2005, 2328). This politicized power distorted the Mexican banking sector and contributed to the 1995 banking crisis. To avoid crisis and to have more stable banking, Haber argues that financial systems must exhibit institutions that give bankers an incentive to behave in a prudent manner and borrowers an incentive to honor credit contracts (2005, 2351). He concludes that Mexico took some advantage of the 1995 banking crisis, but has yet to be truly successful at releasing market forces. Commenting on the current crisis, experts of developing country finance Aslı Demirgüç-Kunt and Luis Servén offer an explicit defense of liberal financial orthodoxy arguing, "the 'sacred cows' of financial and macro policies are still very much alive" (2009, 45). The short-term crisis containment polices, they caution, "should not be interpreted as permanent deviations from well-established policy positions" whose rejection would end up backfiring on governments. In contrast to Öniş, they believe "finance is risky business and it is naïve to think that regulation and supervision can – or should – completely eliminate the risk of crises, although they can make crises less frequent and less costly" (2009, 45-6). The current crisis is thus interpreted as an opportunity to improve regulation and supervision without dampening financial development and growth. An OECD Economics Department February 2009 report reinforces this defense: "the financial crisis has shown the need to strengthen financial market regulation. It is important, however, to resist any temptation to revert to a too conservative banking system" (Furceri and Mourougane 2009, 41).

The intent here is not to critique the merits of these debates, but rather to highlight that liberal and institutional political economic analyses of emerging market have mostly framed the problem with principal reference to crisis and the formal market-enhancing institutions of banking. The debates have then revolved around how either greater or lesser exposure to financial imperatives can improve stability and resolve developmental challenges. 'Institutions' alone thus appear to serve as the final and formative context of change (Cammack 1992; Przeworski 2004). In doing so, these debates have not addressed the problem of bank rescues and the underlying social relations of power that shape changes to the institutions of banking.

The historical materialist interpretation offered here bridges the gap in this debate. As Gerard Greenfield (2004) argues, there is a need to move beyond institutions and policy, without jettisoning them, to examine underlying power relations and structures. Along this line of reasoning, Gérard Duménil and Dominique Lévy define neoliberalism as a new social configuration, wherein the outcomes of neoliberal crisis have technical and institutional dimensions, but ones that are determined by domestic and international political forces (2004, 674). Furthermore, neoliberalism is finance-led. This means that the range of developmental options available to individuals and collectives in society are more forcefully subjected to the discipline of money, creditworthiness, and speculative pressures than in earlier phases of capitalism (Bello 2006). This is an expression of the reasserted power of finance since the 1980s, wherein 'finance' denotes the upper fraction of capitalist owners and their financial institutions (Duménil and Lévy 2004, 660). In contrast to claims that neoliberalism is imposed by foreign actors (see Cizre and Yeldan 2005; Morton 2003), Mexican and Turkish societies are not understood here as agentless victims. As Hamza Alavi (1982) reminds us, individual and collective agents in the periphery must be seen in the context of class divided societies and contending domestic social forces. Thus, as Hugo Radice argues, the exogenous sources of change pointed to by institutionalists are in fact endogenous to world capitalism as a whole and originate in specific countries (2004, 189; my emphasis). The strength of this historical materialist account thus rests in its analytical 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 (Albo 2005). In this light, the Mexican and Turkish bank rescues are from the outset interpreted as historical processes that have revamped pre-existing institutionalized sets of social power relations. The historical context leading up to the Mexican 1995 and Turkish 2001 banking crisis are explored next.

3. POSTWAR TRANSITION TO NEOLIBERAL BANKING AND CRISIS IN MEXICO AND TURKEY

The unique institutionalized capacity of commercial banks to pool and augment domestic money savings shaped the historical preeminence of banks in Mexico and Turkey's financial systems. In Mexico in the years following the 1910-17 Revolution, mobilizing capital for industrialization was the ruling elite's priority, which demanded that the state apparatus help to reorganize the collapsed banking sector and to re-establish Mexican bankers in their banks (Bennett and Sharpe 1980, 172; Gómez-Galvarriato and Recio 2003). The private domestic banks then contributed to financing development through official reserve requirements held in the Bank of Mexico, whose funds were channeled into priority sectors. In a like manner after the collapse of the Ottoman Empire, the new Turkish state also needed to mobilize domestic capital. To do so, nascent Turkish capitalists and state elites articulated a system of state and privately owned banks that co-existed alongside minor foreign banks during the 1923 İzmir Economic Congress. The reserve requirement mechanism and the Central Bank of Turkey helped to fund development as in Mexico, but the Turkish state banks also became important agents of industrialization.

While contentious with export-oriented fractions of domestic capital, the postwar state regulation of the banking sector was well-within international and American norms of state-led development (Helleiner 2006). State regulation helped to ensure stable growth and profits for the private domestic, foreign, and state banks. Private domestic banks competed by expanding branch coverage, deposit collection, and by targeting specific sectors for credit allocation. With the growth in markets and the increasingly generalized use of money, banks became more powerful institutions in society. Influential family-based holding groups, moreover, owned the most important private banks. Tight state-market institutionalized relations formed between the bankers – represented by national bankers' associations – and the government via the central banks and treasuries. The importance of having the banks be predominantly Mexican or Turkish owned, rather than foreign-owned, went almost unquestioned.

As developing countries, Mexico and Turkey achieved significant levels of capitalist industrialization and integration into the world market compared to colonial times. Despite this, the barriers presented by capitalist development strategies meant that the two societies continued to exist as subordinate within the hierarchy of interstate relations. Moreover, postwar ISI development strategies also put growing pressure on domestic finances. By the late 1970s, Mexico and Turkey faced serious financial and balance of payments problems that could not overcome easily (FitzGerald 1985, 227; Yalman 2002, 37-8). In Mexico, the mounting requirements placed on the bankers triggered investment strikes that led to the 1976 and 1982 Mexican foreign exchange and debt crises. In the interests of re-asserting state-led development, the outgoing President José López Portillo Institutional Revolutionary Party (PRI; Partido Revolucionario Institucional) government nationalized the domestic private banks on 1 September 1982 (Tello 1984). Bank nationalization under the incoming market-oriented President Miguel de la Madrid PRI government, however, had the unanticipated effect of enabling a more rapid shift to neoliberalism than may have been otherwise possible (Marois 2008).

In Turkey, by contrast, the predominance of no single bank ownership group meant that the control over domestic capital savings was more dispersed. As financial pressures mounted in the late 1970s, this reduced the likelihood of a severe Mexico-like bankers' investment strike and any pressure to nationalize the banks – if for no other reason than the Turkish state banks controlled about half the banking sectors' assets. Rather, widespread and mounting class conflict meant Turkish state elites, backed by the 1980 military regime, intervened on behalf of the general interests of Turkish capitalism with rapid and authoritarian liberalizations (Savran 2002). The 1980s thus opened a period of structural transition to neoliberalism in Mexico and Turkey. This transition required more access to capital to sustain investment levels, which drove capital account liberalization in 1989. In both cases, the turn to finance-led neoliberalism was met by significant financial crises by the mid 1990s, and then by the 1995 Mexican and 2001 banking crises.

In the immediate foreground of Mexico's 1995 banking crisis and rescue package stand the 1991-92 bank privatizations, the 1994 NAFTA implementation, and the 1994 peso crisis. During the ten years leading up to bank privatization, the PRI de la Madrid and Salinas governments had aggressively reorganized the banking sector so as to internalize profit imperatives by reducing the number of banks, rationalizing the sector, promoting a parallel system of market-based finance, and by using the state banks as agents of state-owned enterprise (SOE) privatizations (Marois 2008). Bank privatization was then announced in May 1990 and transpired very rapidly from June 1991 to July 1992 earning $12.27 billion (SHCP 1994, 48-50). Contrary to the PRI 'democratization' of bank capital discourse, the sell-off resulted in highly concentrated bank ownership patterns under Mexican financial holding groups (Vidal 2002, 22-5). Bank privatization, moreover, occurred in the context of the NAFTA negotiations and the 1 January 1994 launch – an agreement forged with the intention of institutionally tying the hands of future governments to a neoliberal strategy of development (Guillén Romo 2005, 89). Privatized banking and the new NAFTA framework intensified competition in Mexican society and generated economic instability contributing to the 1994 peso crisis. The peso crisis arose from the political decisions to liberalize the Mexican economy since de la Madrid and how domestic capital has since had to manage increasingly high debt levels while shifting productive capacity to an export orientation (Soederberg 2004, 48). As the 1994 crisis led to peso devaluation, this too caused the peso value of the domestic banks' foreign-denominated debt obligations to rise abruptly, triggering the 1995 banking crisis. This exposed the over-extension of large holding groups' debt, which thrust the banking system into risk of collapse (Banco de Mexico 1996, 1). The PRI government responded by crafting a comprehensive bank rescue that more deeply integrated finance-led neoliberal development strategies within Mexican society (detailed below).

In Turkey, more time passed between the 1980s transition to neoliberalism, the 1994 financial crisis, and the major 2001 Turkish banking crisis. Under the ideological leadership of Turgut Özal, the Motherland Party (ANAP; Anavatan Partisi; 1983 to 1991) and the True Path Party (DYP; Doğru Yol Partisi; 1991 to 1995) administrations undertook dramatic neoliberal reforms (Balkan and Yeldan 2002). As in Mexico, demands for greater access to capital encouraged financial reforms that led to capital account liberalization in 1989, which encouraged the internalization of foreign currency and TL substitution within Turkey's unstable and inflation-prone economy (TBB 1999; TBB 2000). This led to a situation where the Turkish state was unable to rollover public debt and in 1994, according to the World Bank, the "long-predicted financial crisis finally struck" (2005, 1). The early 1990s finance-led boom came to an end, earning Turkey the dubious moniker of being the first developing country to face a major 'neoliberal' financial crisis (though not as severe as Mexico's peso crisis that followed in December 1994) (Öniş 2006, 249). The 1994 Turkish crisis did not spark an immediate banking crisis, but the banking sector did come under more intense competitive pressure to consolidate due to declining domestic interest rates, lower profit margins, lower inflation, and the end of universal insurance on bank deposits. These competitive pressures built up as the IMF-orchestrated December 1999 disinflation program was unrolled. By this time, the Bülent Ecevit Democratic Left Party (DSP; Demokratik Sol Parti) coalition government had placed a total of eight failed banks, representing about eight percent of all banking assets, under the Saving Deposit Insurance Fund (TMSF; Tasarruf Mevduatı Sigorta Fonu) (World Bank 2003, 52). The 1999 disinflation program then began to pre-announce exchange rates, but this encouraged domestic banks to profit by borrowing in short-term foreign currency and then lending in longer-term TL terms. This created severe profit-driven credit maturity mismatches and sizeable foreign currency open positions through 2000 (BDDK 2002). The first wave of crisis peaked in late October and November 2000 as more private Turkish banks failed, thus demanding the government inject billions into the sector. This wave set off a second larger wave of crisis by uncovering the Turkish state banks' problematic exposure of billions of dollars in official duty losses (BDDK 2003, 10). The immediate trigger to the 2001 crisis occurred on the 19th of February during a dramatic quarrel between PM Ecevit and President Sezer that sparked nearly $5 billion in capital flight – a quarter of Turkey's $20 billion in reserves (TBB 2001). Turkish society would ultimately shoulder the brunt of the ensuing 2001 bank rescue, which is explored next in comparison to Mexico's 1995 crisis.

4. THREE TENDENCIES OF EMERGING MARKET BANK RESCUES

The emergence of neoliberalism internationally has first rested on the defeat of organized labour's capacity to resist structural adjustment and second on the re-asserted dominance of finance since the 1980s (Duménil and Lévy 2001; Panitch and Gindin 2004). As both consequence and catalyst, global south governments of democratic and authoritarian hues have authored new policy constellations shaped around fiscal austerity, labour flexibility, privatization, financial opening, and trade liberalization as neoliberalism became synonymous with the ideology that no matter the social, political, economic, or ecological problem more exposure to the competitive world market could resolve it. The ensuing rise in financial crises in the global south has not halted this, but has instead opened market-oriented restructuring possibilities once thought improbable or impossible (Cypher 1989; Marois 2005). The Mexican 1995 and the Turkish 2001 banking rescues are significant in this respect and have comparatively displayed three interrelated tendencies: (a) the socialization of risk and debt, (b) the rationalization of the banking sector, and (c) the internationalization of the financial apparatus. Often in dialogue with IFIs, their government elites and state managers act on behalf of the banking sector and capitalism at home rather than at the behest of any individual banker. In doing so, the bank rescues re-institutionalize revamped forms of finance-led neoliberalism that maintain structurally unequal social relations of power to the benefit of finance.

(a) The Socialization of Debt and Risk

The socialization of debt and risk represents how neoliberal-oriented governments tend to accept ownership of and responsibility for private financial risks that have gone bad and instigated crisis. Mexico and Turkey's bank rescues offered individual banks immediate relief to bolster capital adequacy and remove 'toxic' assets from their balance sheets. According to OECD economists, the gross fiscal costs of bank crises are transfers from present and future taxpayers to present and future beneficiaries of the rescue packages (Furceri and Mourougane 2009, 28). This agentless and descriptive statement misses how the bad debts and risks are socialized because they become collectively backed by the future capacity of society to work, create value, and pay recurrent taxes to service the political commitments. Governments do so to re-invigorate capitalism and, by extension, the social relations of finance. Despite the extent and depth of socialization, in most accounts of bank rescue the uneven relations of power remain hidden. For example, the Economist's January 2009 special report on the future of finance spared the idea of 'socialization' a mere two sentences within nearly two dozen pages: "Taxpayers will end up carrying the load. In effect, the state will take on much of the debt that the private sector has decided to jettison."

The case of Mexico is among the first emerging market neoliberal bank rescues. As the 1995 banking crisis unfolded, the Zedillo PRI government coordinated its response through the Banco de México (BM) and the Banking Fund for the Protection of Saving (Fobaproa; Fondo Bancario de Protección al Ahorro). The funds collected within Fobaproa to date were inadequate, so the PRI unilaterally absorbed the cost of rescue by integrating it into the government's Executive budget (SHCP 1998, 33). At the time, the PRI claimed the rescue would cost about 5.5 percent of 1995 gross domestic product (GDP) (Banco de Mexico 1996, 8). In national discourse, the Ministry of Finance and Public Credit (SHCP; Secretaría de Hacienda y Crédito Público) framed the bank rescue not as saving a few private bankers, but as necessary for the benefit of all Mexicans (SHCP 1998, 21).

While technical in form, the measures were deeply social and political. For example, the 1995 rescue first offered US dollar liquidity to troubled banks and then a Temporary Capitalization Program (Procapte) to help Mexican banks reach an eight percent capital to asset adequacy ratio (SHCP 1998, 34-5; Banco de Mexico 1998, 156). While no long-term costs were attributed to these two programs, the political intent was to restore immediate social confidence in the banks. A third more costly program aimed at stretching out and restructuring the individual debts of fisheries, families, SMEs, and so on for a cost of about three percent of GDP in 1998 terms (SHCP 1998, 35; OECD 2002b, 155). While rising interest rates and falling personal incomes meant this program was largely ineffectual for the average debtor (Avalos and Trillo 2006, 25), the intent was to encourage individuals to collectively honor property rights (that is, their debt commitments). The most costly socialization measure involved the PRI acting on behalf of the general interests of finance via the permanent recapitalization program, which purchased banks' NPLs with 10-year Mexican state bonds (non-negotiable and capitalizable every three months at an averaged CETES rate) (SHCP 1998, 38; OECD 2002b, 155). By early 1998, the PRI recognized that Fobaproa could not redeem these bonds as they came due. The cost of socialization had grown to $60 billion or around 15 percent of 1998 GDP – an amount five times greater than the $12 billion received for bank privatization just a few years earlier. The situation prompted Zedillo to ask Congress to officially absorb all Fobaproa debt within in March 1998 (SHCP 1998, 51-2), but the PRI no longer enjoyed the political dominance it once had. After months of debate and public outcry the National Action Party (PAN; Partido Acción Nacional) and the ruling PRI pushed through a modified measure in December 1998: the costs of servicing the socialized debt would be included in Mexico's annual budget, which is only possible through tax revenues at the expense of other social spending (Stallings 2006, 190). The IMF has expressed concern over the servicing of the now $100 billion in accrued socialized debt (nearly 20 percent of GDP), recommending the PAN transfer the debt from the bankers' insurance fund directly to the federal government (2006, 28) – a plan that reflects Zedillo's failed 1998 proposal.

In Turkey, the range of socialization measures differed, but the magnitude of the crisis meant it cost more. At the apex of the 2001 banking crisis, the Ecevit DSP coalition named a longtime World Bank executive, Kemal Derviş, as the new Minister of the Economy. As the Economist put it, Turkey's bickering coalition agreed to allow a technocrat to spearhead reform and restart the flow of foreign capital – or, in other words, to extend Turkey's finance-led neoliberal strategy of development. To do so, the coalition gave Derviş broad institutionalized powers to rescue the banks, including control over the Banking Regulation and Supervision Agency (BDDK; Bankacılık Düzenleme ve Denetleme Kurumu). By mid April, he announced the Transition to a Strong Economy (TSE) program to help renew Turkey's openness to the world market (TBB 2001; BDDK 2002). The May 2001

Banking Sector Restructuring Program (BSRP) was at the heart of the TSE and was to be carried out through the BDDK. In national discourse, the Derviş BSRP was portrayed as capable of eliminating financial distortions and promoting an efficient, globally competitive, and stable banking sector (BDDK 2002). This first meant socializing the vast amounts of risky debt and duty losses accumulated during Turkey's transition to neoliberalism, which were being held by Turkish private domestic and state banks.

The DSP coalition had already transferred $6.1 billion from the BHM to the TMSF in October 2000 to cover the expenses of the already rescued private banks (OECD 2001, 206; World Bank 2003, 52). As the 2001 crisis unfolded, the DSP disregarded the legislated deposit coverage limits just established in June 2000 and accepted liability for 100 percent of the banking losses incurred during the 2000 and 2001 banking crises "with the purpose of protecting the banking system" (BDDK 2003, 20). The subsequent rescue amounted to $47.2 billion – or just over 30 percent of 2002 GDP (BDDK 2003, 6). Of this, nearly $22 billion was allocated to liquidating the state banks' duty losses. The other $25 billion went to the private banks and failed private banks held in the TMSF. The Turkish BHM contributed $44 billion – backed by the future labour of Turks, as in Mexico – and the private sector $2.7 billion.
While differing in detail, both cases have socialized enormous amounts of finance risk and debt in the name of stabilizing a market-oriented banking sector. While the weaknesses of individual banks are exposed, the strength of finance in emerging market society is revealed: the private risks driving crisis become the collective responsibility of present and future generations of Mexicans and Turks.

(b) The Rationalization of the Banking Sector

Debt and risk socialization is followed by a second tendency of emerging market bank rescues – the rationalization of the banking sector. While appearing at odds with market-discipline, the political intent of rationalization deepens the institutionalization of finance in society and maintains its market-oriented social logic. This is what Demirgüç-Kunt and Servén get at regarding the current crisis when they argue the "sacred cows" of financial policy are not dead: containment is not tantamount to permanent deviation (2009, 45). In Mexico and Turkey, this has involved a mix of IFI-mediated and government-authored regulatory changes, forced mergers, failed bank takeovers, and the entry of foreign bank capital.

Take for example Derviş' response to the 2001 Turkish banking crisis and how the BSRP pressed forward with a range of more restrictive bank regulatory and supervisory measures to stabilize finance. This involved the Ecevit DSP coalition amending the 1999 Banking Law and imposing tougher capital requirements, definitions of credit, credit limits, NPL provisions, balance sheet reporting obligations, capital requirements for mergers and acquisitions, and so on (BDDK 2001). New corporate and tax legislation went further to reorganize once combined financial-industrial groups into separated financial and corporate conglomerates. Rules around related-lending and associated loan limits were then stiffened. According to one state bank manager, these legal changes forced holding groups to pursue banking as a separate business in its own right (Interview, Senior Manager, Halk Bank, 24

August 2007, İstanbul). BSRP merger and acquisition tax incentives also helped to reduce the number of banks (BDDK 2003, 66). At the same time, the BSRP encouraged the internalization of foreign bank capital and the formation of domestic-foreign joint banking ventures as stabilizing measures. This was achieved via higher liquidity and capital adequacy requirements: in a banking system where liquidity was once low, the policy measure compelled some private domestic banks to seek out foreign capital to met the new standards. Rationalization thus entailed strengthening oversight in accordance with Turkey's subordinate emerging market position within the world market – wherein neither the state apparatus nor the banking market could sustain overly risky financial profiteering.

The 2001 crisis also opened an opportunity for Turkish state financial managers to rapidly restructure the state banks so that, as the Economist then recognized, they functioned as if they were private, profit-seeking, market-disciplined banks. Once the state bank duty losses were socialized, the government annulled nearly 100 regulations thus arresting the possibility of any future political channeling of state bank resources and profits through duty losses, be they developmental or neoliberal in orientation. The state-owned Emlak Bank was merged into Ziraat Bank, and the BDDK then undertook ongoing operational restructuring to re-craft the remaining state bank operations at all levels according to market discipline and profit imperatives (BDDK 2002; TBB 2001). State bank managers have since pursued professionalization and harmonization according to EU directives and in preparation for privatization (BDDK 2002). The political intent was to remove the historical socio-political mandate of state banks within official development strateges in favor of institutionalized market-oriented forces.

In one of the first rationalization measures taken in response to the 1995 Mexican banking crisis, the bank insurance fund, Fobaproa, took over 13 mostly smaller failed private domestic banks, then closed and/or re-sold them to other domestic or foreign banks from 1995 to 1997 at a cost of about 8.3 percent of Mexico's GDP in 1998 terms (SHCP 1998, 36-7, 42). The PRI had modified the 1990 Credit Institutions Law in February 1995 with the intent of encouraging domestic-foreign alliances to improve systemic efficiency, restore economic stability, and increase the banking sector's capital base (Banco de Mexico 1996, 133; 230-5). The changes allowed foreign institutional investors to take majority control of all but the three largest banks (Tschoegl 2004, 59). But the PRI efforts to draw in foreign capital proved largely ineffectual at first due to lingering restrictions and ongoing economic instability. Not until the Vicente Fox PAN government (2000 to 2006) did foreign bank capital become the cornerstone of Mexico's banking sector (discussed below).

As in Turkey, post-crisis institutional changes also sought to enhance Mexican bank supervision, regulation, and to limit deposit protection in the interests of stability (SHCP 1998, 51-2). As one example, the Zedillo 1998 reforms replaced Fobaproa with a new bankers' fund – the Bank Savings Protection Institute (IPAB; Instituto para la Protección al Ahorro Bancario) (Banco de Mexico 1999, 232). In national discourse, the banking reforms were needed because credit had been allowed to expand too much, and the new bankers were too inexperienced to know better. Currently, the PAN President Felipe Calderón's 2007 to 2012 NDP continues to privilege financial stability, for example, by enhancing the protection of property rights, promoting financial competition, and enhancing regulation.

Rationalization, like in Turkey, reflects Mexico's emerging market status within the international hierarchy.

Neoliberal era crisis-driven rationalization reforms of this kind reflect the chance, as the current Governor of the TCMB Durmuş Yılmaz (2007) claims, to put your "house in order." The institutionalization of these changes are not apolitical because the ideological intent is to de-politicize so-called economic processes in such a way as to enhance the structures of finance domestically.

(c) The Internationalization of the State's Financial Apparatus

The tendencies of socialization and rationalization in Mexico and Turkey go together with a third – the internationalization of the state's financial apparatus. Internationalization impacts a society's democratic relationship to development by institutionally shifting domestic decision-making power in favor of domestic and foreign finance, a process that has a dual character. On the one hand, internationalization involves government and state managers accepting responsibility for managing their own domestic capitalist order such that they also better contribute to managing the international capitalist order (Panitch and Gindin 2003, 17). Currently, this is a key message of the G-20 leadership, and in particular the US. On the other hand, internationalization involves these same actors insulating the state's financial apparatus from domestic politics according to international norms. First among examples include the pursuit of central bank independence and inflation targeting as the sine qua non of policy credibility in the modern finance-led neoliberal era (Mishkin 2009). While credible in the eyes of finance, both measures are ultimately anti-democratic because they militate against popular influence (Grabel 2000, 7).

The tendency to internationalization in Mexico has accelerated since the 1995 banking crisis. At the time, the PRI merged the once separate National Securities and National Banking commissions into one – the National Banking and Securities Commission (CNBV; Comisión Nacional Bancaria y de Valores) (Banco de Mexico 1996, 133). Zedillo's 1998 reforms then sought, but fell short of reaching, full institutional autonomy for the CNBV – as had already been granted to the Banco de México in the lead up to the 1994 NAFTA. As the impact of the 1995 crisis settled out, the Fox PAN government's National Development Finance Program from 2002 to 2006 continued to bring domestic regulation within international strictures (SHCP 2005, 105). To do so, the PAN aggressively pursued compliance with the BIS Basel 25 core banking principles (IMF 2006). According to one high ranking SHCP director, prior to 2000 and the entry of foreign capital, there was far less need for the degree of banking regulation now required (Interview, Bank and Saving Unit, 13 February 2008). While praising Mexico's efforts towards improving the institutional capacity of the CNBV, the IMF suggests the PAN press forward with full CNBV independence and expanded authority (IMF 2006, 41-3). The main idea is to improve domestic stability and to eliminate political interference by enabling the CNBV to better liaison with foreign regulators through joint international Memorandums of Understanding (MU) (IMF 2007, 15). Contrary to 'hollowed out' accounts of the neoliberal state, governments have made the financial apparatus more muscular and better able to manage the place of finance in

Mexican society. Finally, the growing market power of finance has been met by political demands for the 'democratization' of finance – as called for in Calderón's 2007 to 2012 NDP – but of a kind that allocates greater state support for market-based competition as opposed to popular control over domestic money resources.

Internationalization in Turkey has also been shaped by political actors trying to separate "the economic from the political", and indeed more aggressively so since the 2001 crisis (Derviş in TBB, June 2001). For one, the DSP coalition granted the TCMB formal independence in response to the crisis (Yılmaz 2007, 3). The 2001 crisis also pushed the DSP coalition to augment the institutional autonomy and regulatory power of the BDDK and augment the capacity of the TMSF (BDDK 2001). As with Mexico's CNBV, the BDDK coordinates MUs that formalize international relations between the BDDK and foreign bank supervisory agencies like Mexico's CNBV (BDDK 2003, 68-9). Upon coming to power in 2002, the Justice and Development Party (AKP; Adalet ve Kalkınma Partisi) enhanced TCMB independence by bringing its structures and duties more within international strictures by legislating price stability and inflation-targeting imperatives (TBB 2005, 25). Moreover, the EU Customs Union and ongoing accession talks now form the touchstone of financial policy formation, according to Ersin Özince (2005), chair of the Banks Association of Turkey (TBB; Türkiye Bankalar Birliği). The new 2005 Bank Law was framed with EU accession in mind and, according to the BDDK (2006), this presented an opportunity to increase financial stability by strengthening institutional capacity. The TBB reports that most banking activities now have been harmonized with EU directives and international best practices (TBB 2007, I-8). Thus, Turkish state managers have crafted more muscular institutionalizations of finance in reference to foreign standards and according to the ideology that economic and political processes can and ought to be separate.

The processes of internationalization entail bolstering the institutions of finance and jettisoning popular democratic influence. This tendency, along with socialization and rationalization, are institutional in form, social in nature, and a matter of power relations at base. Taken as a whole, the bank rescues thus reflect revamped institutionalizations that benefit of domestic and foreign finance in the era of neoliberalism. But to more fully understand why, these tendencies must be analytically linked to the market structures of bank capital in Mexico and Turkey.

5. THREE TENDENCIES OF EMERGING MARKET BANK CAPITAL

The revamped institutions of finance crafted through the bank rescues must be interpreted alongside the social structures of world market competition and the contradictions that arise therein between corporations, capital and labour, national capitalisms, and dominant and dominated countries that drive change (Beaud 2001, 264). The dynamics of socialization, rationalization, and internationalization are therefore not interpreted as determinant in themselves, but as internally related to the structural tendencies found in banking markets. In Mexico and Turkey, these include (a) the centralization of banking institutions, (b) the concentration of bank assets, and (c) the intensification of competitive banking imperatives (cf. Sweezy 1970, 254-62).

(a) The Centralization of Banking Institutions

In Mexico and Turkey, there is a tendency towards the centralization of banking institutions. Centralization is a historical-structural tendency – driven by world market competition and enabled by credit availability – to combine already existing separate banks and forms of finance through such things as mergers and the formation of holding groups (cf. Marx 1990, 776-80). Centralization can occur rapidly and result in more powerful combinations of bank and finance capital that intensify competitive imperatives among financial firms and within society. However structural, contingent counter-tendencies, such as domestic political realities, often offset the structural trends found.

In postwar Turkey, many small private banks were established but failed. More stable state-owned and larger domestic banks emerged alongside smaller foreign banks such that by the early 1960s there were about 50 banking institutions (BYEGM 2005; TBB 1964). Subsequent state regulations promoted the centralization of the remaining smaller banks within Turkish holding groups to augment domestic credit availability for industrialization. Consequently, by 1980 the number of banks fell to 39 (TBB 1981). Financial liberalization during the 1980s, however, encouraged banking de-centralization as numbers increased to 62 by 1999 (TBB 1981-2000b). But liberalization also increased volatility, and many private domestic banks were closed, taken over by the state, and/or merged into state banks as the financial authorities granted new bank operating licenses in their wake. While private banking de-centralized, state managers centralized the capital of the state-owned banks: from 1980 to 1999, eleven banks became four – Ziraat, Halk, Vakif, and Emlak – through a process that involved minor privatizations, mergers, and closures (TBB 1964-2000).

With the collapse of the 1999 disinflation program and 2001 banking crisis, government policy again pushed bank centralization as a stabilization measure. Once again, the number of banks dropped from 62 to 33 from 1999 to 2006 via mergers, failures, and state rescues – all of which were private banks except for Emlak Bank (TBB 2000; TBB 2007, I-35). One of the key overall dynamics not to be missed, however, is how large Turkish holding groups gained control over most of the private banks (Isık and Akçaoğlu 2006, 5; Ercan 2002, 30). The centralization of banking conferred a significant competitive advantage on holding groups through easier access to credit and the appropriation of consistent bank profits (Öncü and Gökçe 1991, 106; OECD 1999, 126-7; Ercan and Oguz 2007, 181). In the current neoliberal and post 2001 crisis era, Turkish banks remained attached to holding groups, but tighter regulations have erected stronger firewalls between the holding groups' financial and productive branches.

In postwar Mexico, the number of banking institutions grew from less than 40 to 105 from 1940 to 1971 (Bátiz-Lazo and Del Angel 2003, 344, Aubey 1971, 26). The expansion in numbers should not obscure how Mexican holding groups loosely centralized all forms of finance. By the mid 1960s, for example, six powerful groups emerged that owned 44 commercial banks and 21 financieras (investment-type banks) (Aubey 1971, 26). As in Turkey, the holding groups used their banks' savings to channel resources through their non-bank affiliates to boost their market power (Del Ángel-Mobarak 2005, 46).

With the sector's near collapse in 1982 and bank nationalization, the de la Madrid PRI government spearheaded the centralization of the now 58 state-owned banks into 18 by 1986 as a stabilization measure (ABM 2009). The 1991-92 bank privatizations and favorable financial liberalization policies then acted as counter-tendencies enabling Mexican bank numbers to increase to 41 by 1996. As a result of volatility from the 1995 banking crisis, bank numbers again fall to 36 by 2000 and then to 31 by 2006 due to banking failures, mergers, and the reticence of Mexican authorities to grant new banking licenses (CNBV 2001-08). As in 1982, government authorities favored centralization for stability purposes. The biggest Mexican banks today are held within very few powerful foreign-controlled financial groups (discussed below), whose profit-making activities have spread to virtually all aspects of finance (IMF 2007). The monopolistic power of these foreign bank conglomerates in Mexican society have raised concerns within the Calderón administration, whose 2007- 2012 NDP encourages market-based solutions to diffuse bank concentration, and within IMF circles currently because of the instability of their foreign affiliates (2009).

In both Mexico and Turkey, centralization has broadened the range of financial instruments that people need to participate in everyday life under the control of fewer and fewer institutions. As the Economist's 2009 report on finance writes "the story of commercial and investment banking has been broadly one of consolidation" that has evolved into a "joust of giant multinationals". In this sense, Mexico is the more advanced case and Turkey is following behind. In both, nevertheless, the institutionalized centralization of finance has solidified a position of power within Mexican and Turkish society. The concentration of these assets offers an interrelated but different historical vantage point.

(b) The Concentration of Bank Assets and Control

The centralization found in Mexican and Turkish banking markets has been matched by a tendency towards the concentration of bank capital. This tendency refers to the growth in the accumulated quantity of capital under the control of a bank that makes possible an enlarged scale of profit-oriented activity. Growing concentration, moreover, implies greater power to allocate a society's capital resources. In the cases of Mexico and Turkey, bank asset concentration has a dual character: first, by ownership group (state, private domestic, and foreign) and second, by individual banking and financial groups. To date, the long-term tendency has been towards foreign ownership in large financial groups.

As seen in Mexico prior to the 1995 banking crisis, bank assets were concentrated in the hands of Mexicans (including state ownership from 1982-92). From 1995 to 1999, however, just over \$1 billion in foreign capital entered from Spain, Canada, the UK, and the US. Citibank had been the lone foreign bank in Mexico since 1929, but his changed as there were now 18 foreign and 18 domestic banks apiece (OECD 2004, 310). Mexican bank capital remained dominant to this point, but the removal of foreign control restrictions – as negotiated for in the 1994 NAFTA Chapter 14 appendices – and wider financial liberalization measures taken by presidents Zedillo and Fox enabled foreign banks to assume control in the new millennium. From 2000 to 2002, over $20 billion in foreign capital entered the Mexican banking market. Mexico currently has among the highest concentrations of banks under foreign control in Latin America, sitting around 85 percent.

Asset concentration is also evident in how the largest banks are controlled within a few massive financial groups that monopolize the sector (Banco de Mexico 2007, 79, 83). Whereas six Mexican financial groups informally controlled about 73 percent of all financial sector resources in the mid 1960s – including many dozens of separate banks and other financial institutions – nearly 97 percent of all bank assets and 84 percent of all mutual fund assets are concentrated within largely foreign bank-based and formally incorporated financial groups today (Aubey 1971, 26; Banco de Mexico 2007, 50). The six largest bank-based groups today control over 85 percent of all bank assets (Banco de Mexico 2007, 51). The largest bank, Spanish-owned BBVA Bancomer, controls over 27 percent of bank assets, the top two banks, which includes the US-owned Citibank-Banamex, control 44 percent of all private sector credits and 60 percent of all mortgages (CNBV 2008, 43).

In the case of Turkey, the same dramatic concentration shifts over time are not seen, but the banking sector is still tending towards greater foreign control and larger institutions. The difference is historical. Since 1923, private domestic, foreign, and state-owned banks have co-existed. In the mid 1960s, Turkish state banks controlled about 64 percent of all banking assets, private domestic 27 percent, and foreign four percent (TBB 1999). By the late 1990s and with financial liberalization, state bank assets contracted but to only about 39 percent while private domestic bank assets expanded to just above 50 percent of all assets (foreign control remained stagnant around 3.5 percent). Not until after the 2001 banking crisis and with prospects of EU accession since 2004 did the growing concentration of assets under foreign control stand out. Since then, however, the foreign banks have been "pouring into Turkey" (Echikson 2007). Whereas in 2005, foreign banks controlled five percent of the sector, this more than doubled to 12 percent by 2006 (TBB 2007, I-39). If minority foreign-held shares in the İMKB are included, over 35 percent of Turkish banking assets are under foreign in 2007. The power relations of bank control have thus shifted towards foreign banking conglomerates.

The level of concentrated bank assets within individual banks in Turkey is not as high in Mexico, but still remarkable. Liberalization during the 1990s had encouraged some asset de-concentration. Whereas in 1990 the five largest banks controlled 54 percent of all banking assets and the top ten banks 75 percent, by 1999 the control of the top five banks fell to 46 percent of assets and the top ten to 68 percent (TBB 2000). The government's centralization measures that came in response to the 2001 crisis, however, triggered a period of asset concentration. By 2007, the top five banks controlled 61 percent and the top ten 83 percent of all banking assets (BDDK 2007, 63). As unique to Turkey, the state banks are still among the top ten largest banks and control about a third of all banking assets. The state banks therefore act as a counterbalance to growing foreign bank capital, which is absent in Mexico.

Historically, the growing concentrations of bank capital have arisen from structural pressures to service the needs of capital for Mexican and Turkish development and in response to world market competitive pressures. Again on the current crisis the Economist points to "the growth imperative" as a key factor while acknowledging "woe betide any banker who fell behind." But the concern is not simply that there are larger institutions engulfing smaller ones, but rather that progressively foreign and larger banks hold more institutionally concentrated power over the developmental fortunes of societies like Mexico and Turkey.

(c) The Intensification of Competitive Banking Imperatives

Bank capital centralization and concentration tendencies in Mexico and Turkey are structural factors behind a third structural tendency – the intensification of banking. Intensification involves the acceleration of competitive imperatives imposed on banking capitalists, individually and collectively (and, by extension, on bank labour and society in general). In the postwar period, Mexican and Turkish banks intensified competition by extending multi-branch banking, which rendered relatively stable profit levels (TBB 1999; del Ángel-Mobarak 2005, 52-4). But as ISI came under financial stress in the 1970s, this model of banking also came under ideological attack as a form of financial 'repression' that has since become almost synonymous with attacks against the 'politicization' of economic decisions (Shaw 1973; McKinnon 1973; La Porta et al. 2002; Girma and Shortland 2008). New market-oriented banking strategies arose as emerging market banks had to compete in the world market for capital resources and at home for profit by intensifying productivity and efficiency imperatives on branches and employees.

Take, for example, Turkey's post 1980s transition to finance-led neoliberalism. Over the span of two decades the ratio of bank assets to gross national product more than doubled from 31 to 80 percent (TBB 2000). But during this same period, there was very little growth in the number of bank branches for foreign, state, and private domestic banks. In the private domestic banks, employee numbers grew by less than five percent, despite overcoming the state banks in overall asset control (shown above). Fewer bank employees handling more assets helped drive productivity gains and contribute to the more than doubling of the private banks' return on assets (ROA) profit ratios, which grew from about 1 percent pre 1980s to over 2 percent by the late 1990s (TBB 1999). With Prime Minister Özal's initial and rapid liberalization efforts, Turkish private domestic banks also turned to leveraging more capital to earn higher (and riskier) return on equity (ROE) profits, which grew from about 35 percent pre 1980 to just over 60 percent in the late 1990s. The culmination of leveraged and high risk bank profiteering amidst domestic political and economic instability led to the 2000 and 2001 banking crisis. Stricter crisis-driven state regulations forced down the riskier ROE measures to about 14 percent by 2003 and to just under 20 percent by 2008 (TBB 2003-08). The ROA ratios have not suffered since the 2001 crisis and have remained in the two percent range rising to a relatively high 2.4 percent by 2008. The new foreign bank entries have achieved similar levels, with 2008 ROA at 2 percent and ROE at just over 15 percent.

As for the Turkish state-owned banks and with a decline in total asset share by the late 1990s, ROA profitability improved to around one percent as the number of employees increased. The lower profits of state banks are tied to its growing employee base and to their mandated social developmental missions, which had become neoliberal in orientation since the 1980s (TBB 2000). In addition, the state agricultural bank, Ziraat, serves the unique social role of institutionally integrating Turkish farmers and peasantry into the Turkish payments system. This too has impacted profitability (which was not the mandated objective of any state bank prior to 2001). With the 2001 crisis, the exposure of neoliberal duty losses, and subsequent state bank reorganization under the BSRP, the number of Halk and Ziraat employees was cut by over 40 percent and the number of branches reduced by over 30 percent. As a result, the asset size per state bank employee doubled from $0.7 million in December 2001 to $1.4 million by August 2003 as the asset size per branch almost doubled from $13.9 million to $26.1 million (BDDK 2003, 13-4). Consequently, state bank ROA had reached 2.2 percent by 2003, then rising to 2.8 percent by 2008 without excessively risky leveraged debt since ROE measures have remained in the 20 to 25 percent range (TBB 2004-08). The growth in profits notably occurred within an international expansionary phase, especially within the global south. And as the current world financial crisis has unfolded, Turkish bank profits have suffered, but not dramatically. The largest state, private domestic, and foreign banks remain quite profitable unlike their US and European counterparts. The BDDK emphasizes this is due to the 2001 crisis-driven reforms that have made the banks' balance sheets free of high-risk toxic assets and that raised capital adequacy levels to nearly 19 percent – not to mention productivity gains through branch and employee austerity.

In the Mexican case during the 1980s, the nationalized banks underwent a series of state-authored austerity measures meant to intensify competition domestically. While the number of potential bank users grew by 33.9 percent from 1982 to 1988, the number of branches grew only by .05 percent thus pushing up productivity imperatives. Bank workers also suffered real wage reductions such that by the time bank privatization was announced in 1990, the unions welcomed it demanding a 100 percent wage increase (Weiser 1990). These measures improved profitability at a time when the banks were state-owned. The state banks' operations were also more restricted by state regulation and fiscal obligations than the newly emerging non-bank private financial institutions that the PRI placed in parallel competition (Pesquera 1990; Marois 2008). With the 1991-92 bank privatizations and 1994 NAFTA came intensified profit imperatives in the lead up to the 1995 banking crisis. One competitive response of the new bank owners followed from state bank austerity and the relative growth in 'unbanked' Mexicans: the number of branches post-privatization exploded by nearly 36 percent to capture Mexican savings. At the same time, however, bank employee numbers fell by 13 percent (OECD 1998, 187-90). Then SHCP manager Ortiz celebrated the resulting high profit levels, which were more than double those found in the US and Europe (1993, 263).

Following the 1995 banking crisis, the number of branches again expanded by 12 percent from 1996 to 2000 to captured unbanked persons' savings (OECD 2004, 304-7). More importantly, bank employees lost jobs as bank owners drove up employee productivity: whereas in 1994 Mexican private banks averaged 29.25 employees per branch this fell to 18.13 per branch by 1998 and to 15.63 by 2000. In the most recent expansionary phase from 2000 to 2007 and with the foreign control of the banks, the number of branches expanded further by 25 percent, which was matched this time by employee expansion at just over 25 percent thus maintaining productivity levels (CNBV 2001-08). As in Turkey, bank profitability responded with phenomenal growth (CNBV 2001-08). Aggregate ROA ratios expanded more than two and half times from 0.94 to 2.75. On average, ROE did not outpace ROA, which also doubled from 9.69 to 19.93 therefore suggesting less risky profit expansion that is not heavily dependent on leveraged debt – again in contrast to US and European banks. Notably according to the Deputy Governor of the BM, José Sidaoui (2006), the recent expansion in bank profits is closely tied to bank employee reductions.

While branch and employee productivity are here singled out as key indicators of how bankers have responded to neoliberal competitive imperatives, other studies also point to how emerging market banks have acquired high-yield state debt securities, collected high transaction commissions, driven up user fees for payment services, encouraged high interest consumer debt, and minimized less profitable loans to productive activities and SMEs in order to augment profitability (Guillén Romo 2005; Toporowski 2007; Stallings 2006). These too are vital to the current phase of development, and in fact direct attention towards the finance-led underpinnings of neoliberal strategies and the growing social significance of finance.

Intensification follows from the growing scope and magnitude of finance (that is, centralization and concentration) and the growth in competitive banking imperatives for control over domestic savings and the banking market. Intensification is experienced through the lives of people and their communities – through banking jobs, higher productivity demands, interest rates, service fees, individual credibility measures, and so on – over which they have little popular say. What's more, intensification influences domestic policy formation as governments must respond to this context – and they have in the form of costly bank rescues when intense bank competition puts the general interests of banking, and by extension the stability of capitalism in their society, at risk.

6. CONCLUSION

The institutional tendencies of bank rescues and structural tendencies of banking markets found in Mexico and Turkey are interrelated and represent historically institutionalized social patterns. As social patterns, they are subject to and representative of relations of power. These patterns of social power relations have collectively reinforced the predominance of finance in society. Finance-led neoliberalism can therefore be interpreted as institutionalized social rule that can appear domestically in a variety of forms but which nevertheless disciplines decision-making processes according to universalized financial imperatives.

Cast in this light, the lessons of emerging market banking rescue have not been lost today. At the time of writing, the G-20 had released a Report following the 15 November 2008 Washington meeting and in the lead up to the 2 April 2009 London meeting – The Road to the London Summit: The Plan for Recovery. The Report states that the April

Summit is to help internationally coordinate the restoration of global economic growth. To this end, the Report asserts the following (2009, 2; emphasis added):

World leaders must make three commitments: First, to take whatever action is necessary to stabilise financial markets and enable families and businesses to get through the recession. Second, to reform and strengthen the global financial and economic system to restore confidence and trust. Third, to put the global economy on track for sustainable growth.

These are not the goals of finance in retreat. The intent is unequivocally to rescue global capitalism and the place of finance therein. While a challenge to the liberal orthodoxy found in the US and UK, the G-20 action plan to date remains well within the confines of the historically constitutive form of finance-led neoliberalism found in Mexico and Turkey. This is not to say that neoliberal crises, the contradictions they bring to light, and the changes they drive may not lead to substantive social change. But critical scholars must remain sober about the relations of power and their institutionalizations defining the current conjuncture. If one of the greatest victories for advocates of neoliberalism since the 1980s is the defeat of organized labour's capacity to resist structural adjustment, flexibilization, and so on, then two of the greatest victories for advocates of finance-led neoliberalism since the 1990s include, first, the institutionalized capacity to shift the risks and costs finance onto domestic working classes and, second, the removal of these same institutions from popular influence. There is little in the current conjuncture and the G-20 plan that suggests a substantive break in these power relations. This is the key lesson from the experiences of Mexico and Turkey that scholars must not overlook when examining the current conjuncture. In this era of finance-led neoliberalism, without democratically owning and controlling domestic banking institutions wherein the savings workers create are held and without these same workers refusing to collectively absorb the costs of private financial risk, then the social, political, economic, and environmental needs of popular classes will remain peripheral to those of finance despite crisis.

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