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Surplus Creation and Extraction Under Structural Adjustment: Turkey, 1980-1992

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ABSTRACT: Based on the classical notion that resolution of the distributional conflict preceded accumulation and production, the paper addresses the changing patterns of surplus creation and extraction under Turkish structural adjustment of the 1980s. Four overlapping mechanisms of surplus extraction that span the adjustment period are identified, and the position of capital toward wage-labor, peasantry, the foreign economy and the state is discussed.

The 1980s have brought profound structural changes in the macro-economic balances of the developing nations. They have led to drastic changes in modes of surplus creation and extraction, and in the interplay of distribution and accumulation. By 1980, many developing countries were faced with severe external financing problems, decline in domestic output, soaring inflation rates and worsening income distribution.

The culminating crisis conditions have led not only to a realignment in stabilization policy, but also to a change in the development strategy toward outward orientation and increased role of private sector and market forces. This new global focus, termed as "structural adjustment reforms," was formulated and executed under the active supervision of the International Monetary Fund (IMF) and the World Bank. Commensurate with this change in the overall macro-economic strategy, significant new developments occurred in the patterns of income distribution and appropriation of

economic surplus, which constitute the thematic motivation for this paper.

The underlying hypothesis of the paper is based on the classical notion that resolution of the distributional conflict is prior to accumulation and production, rather than the *orthodox* (neoclassical) presumption in which the distributional patterns are treated as passive outcomes of the given production technology.[1] Thus, rather than interpreting the realized factor shares as neutral outcomes of the free interplay of competitive market forces with the technological production processes, I advance as a working hypothesis that economic surplus is created and extracted through various socio-political and economic mechanisms necessitating the active, authoritative involvement of the state. Particularly in this framework, I reject the orthodox presumption that the rate of profit is a payment/return to a scarce productive input, capital. Rather, I maintain that the source of profits is the residual surplus obtained by subtracting wages and costs of primary inputs from the marketed value of the final product. This deduction is made possible by the power of the capitalists against other economic agents based on their private ownership of capital and other assets in production. Thus, in this framework, profit is regarded as a socially determined variable that is created, extracted, and distributed by authoritative/administrative policy decisions and the given socioeconomic and structural parameters.

In what follows, I will distinguish between the terms "surplus creation" and "surplus extraction" according to whether surplus originates in the production process through the natural evolution of the system under private ownership of capital and other means of production, or whether it originates under coercion, mainly through intermediation of the market via state apparatus or through the secondary relations of distribution of the surplus.[2] The former case will be termed surplus creation and, whereas it is based on the capitalist's (enhanced) power to sustain residual value added over wages and other costs during the process of production, the latter term will narrate a process of redistribution and distillation of surplus through administrative actions of the state through its tax/subsidy policies, relative sectoral prices, and fiscal and monetary policies. Here the source of surplus need not be the current production processes, and may entail, e.g., transfer of resources from abroad by way of placing claims over the incomes of future generations through interest costs on accumulated foreign debt. Finally, I will utilize the concept "appropriation" as a general term covering both processes.

The paper attempts to describe the underlying mechanisms of surplus creation and surplus extraction in Turkey, one of the most vigorous experiments of structural adjustment of the decade. Turkey was one of the earliest victims of the debt crisis in the late 1970s. Its adjustment experience is often hailed as a model by the orthodox international community, and it has been supported by generous financial assistance through structural adjustment loans, debt relief, and technical aid, amounting to a resource transfer of 4.7% of the Turkish Gross Domestic Product (GDP) in 1980. During 1978-80, Turkey alone accounted for nearly 70% of the total volume of debt rescheduled internationally by all developing countries (Celasun and Rodrik 1989).

Concurrently, surplus extraction, often under active state policy, has been observed to constitute a synergistic component of the Turkish structural adjustment efforts. It is the purpose of this paper to investigate and analytically depict these mechanisms of surplus creation and extraction throughout the adjustment era. To this end, the paper specifically addresses three sets of issues: (i) identification of the phases of surplus creation and surplus extraction in the Turkish economy, and the subsequent changes (and reversals) of the accompanying polity as witnessed throughout the 1980s; (ii) the reformation of the state apparatus and the intermediation of the domestic product and factor markets so as to consolidate the power basis of private capital; and (iii) the mode of disposition of the economic surplus by capitalist classes through the resolution of the secondary relations of distribution, and its consequences for future accumulation and growth patterns of the domestic economy.

The plan of the paper is as follows: The next section lays out the theoretical structure of the surplus concept upon which my analysis rests. Section II provides a general overview of the recent Turkish economic development and macro-economic adjustment; and contrasts the class alliances and the patterns of accumulation and growth across the import-substitution industrialization era of the 1970s with those of the export-led industrialization period of the 1980s. The changing phases of surplus creation and surplus extraction under the structural adjustment reforms of the 1980s are studied in Section III; while the issue of financial liberalization and its consequences on redistribution of the surplus are analyzed in Section IV. Finally Section V presents the summary conclusions.

THE CONCEPT OF SURPLUS AND ITS MEASUREMENT

The concept of surplus was regarded among the key variables of the classical political economy, where it was conceptualized as the difference between output and essential consumption, the latter being the volume of consumption necessary for replenishment of the worker and its family, given the historical socioeconomic conditions of the society. Distribution of income among wage earners and non-wage recipients would resolve the size of the surplus; and the process of its disposition — either through savings or through luxury consumption — would determine the rate of growth of the economy.

It was Paul Baran who, in his *The Political Economy of Growth* (1957), first tried to operationalize the concept for the study of causes of underdevelopment. Baran proposed three different "variants of economic surplus": (i) the actual surplus, which equals "the difference between society's actual current output and its actual saving or accumulation" (1973: 132, original italics); (ii) the potential surplus, which is the "difference between the output that could be produced in a given natural and technological environment with the help of employable resources, and what might be regarded as essential consumption" (133, original italics); and finally, (iii) the planned economic surplus, which "is relevant only to comprehensive economic planning under socialism. It is the difference between society's "optimum" output attainable ... and some chosen "optimal" volume of consumption" (155).

Starting with a criticism of the insufficiency of Baran's treatments, Lippit (1985) proposed to conceptualize surplus as the difference between national income and essential consumption. Based on this framework, he proposed to treat such surplus as "society's `discretionary income,' the income above and beyond what is necessary to meet its socially-determined subsistence requirements" (1985: 1).[3]

Danielson (1990) rejected this notion of surplus on the grounds that it ignores the "fundamentally antagonistic relations between classes and between individuals and the state" (219). Instead, he presented a definition of surplus that is based on the conventional national accounts, which will also serve as the empirical basis of my arguments below.

Considering the value of GDP (in producers' prices) from the income side:

$$Y = W + P + N + dK + Ti - Z \qquad (1)$$

where Y is GDP, W is wages, P is profits, N is interest (and rentier) income), dK is depreciation allowances for physical capital, Ti is indirect taxes, and Z is subsidies. Following the classical school, I will define surplus as the value of net output minus the value of subsistence costs of workers.
Thus:

$$S = Y - dK - w_b L \qquad (2)$$

where w_b is the subsistence wage rate. Here an important issue is the identification of the level of subsistence costs. According to Marx,

> the value of labour-power is determined, as in the case of every other commodity, by the labour-time necessary for the production, and consequently also the reproduction, of this special article... For his maintenance (the labourer) requires a given quantity of the means of subsistence. Therefore the labour-time requisite for the production of labour-power reduces itself to that necessary for the production of those means of subsistence necessary for the maintenance of the labourer" (Capital I: 171).

Clearly, the level of subsistence is historically and socially determined by the development conditions of a given society. Thus,

> In contradistinction ... to the case of other commodities, there enters into the determination of the value of labour-power a historical and moral element. Nevertheless, in a given country, at a given period, the average quantity of the means of subsistence necessary for the labourer is practically known (171).

Observe that in the present application of the surplus concept, if labor's remunerations exceed the subsistence wage rate, then labor, too, would be in a position to capture a part of the economic surplus. This would be the case if, for instance, the unionized segment of the labor force could succeed in increasing the wage rate by squeezing capitalist profits. Based on this premise, rather than associating the costs of subsistence with estimates of poverty lines — a route that is open to criticisms on many empirical grounds and subject to data availability — I propose to approximate the

subsistence wage in the Turkish context, as the labor remunerations in small-scale private manufacturing (firms employing less than 25 workers).[4] Consequently, I will regard the difference between small and large manufacturing enterprises as an approximation of the surplus accruing to manufacturing industry workers. It is possible to argue that trade unions are often stronger in large private (25+ workers) and in government enterprises, and that their wages are largely determined through the collective bargaining process. Small-scale private enterprise workers, on the other hand, mostly receive the "legal minimum wage" as their remuneration, which is determined every year based on a given cost-of-living index criteria for a worker family of four, by a team of government officials from the Ministry of Labor, and representatives from the trade unions and the business associations. Thus, in fact, such wages represent the official subsistence income of a worker. It should be noted here that I am not making any judgments about whether this "official" rate is a true indicator of the costs of subsistence.[5] Thus, I approximate the excess wage income of the workers as

$$\text{excess wages in private manufacturing} = (w_R - w_S)L_R$$

$$\text{excess wages in public manufacturing} = (w_G - w_S)L_G$$

where w_s, w_R and w_G stand, respectively, for the wage rate in small-scale private manufacturing, large private manufacturing, and the government (public) manufacturing; and L_R and L_G are total labor employment in large private firms and the government firms.[6]

In this vein, it has to be noted that a rise in the real wages does not necessarily call for an equal reduction in the amount of economic surplus appropriated by the economic classes. For, "depending upon the rate and conditions of accumulation, real wages and profit rates could rise or fall together or move inversely" (Harvey 1981: 53). The rise in real wages can be accommodated by the private capital, as Marx argues, "as long as the rise does not interfere with the progress of accumulation" (Capital I: 619, cited in Harvey 1981). That this had precisely been the Turkish experience with its changing modes of surplus extraction is yet to be narrated in the remaining pages of this paper.

Another important issue is whether employed labor is surplus generating or surplus depleting. For instance, in national income accounts the value added of the public services sector consists entirely of wage payments, and as such, aggregate surplus available for private capital owners is reduced by an equal amount. Public services, such as education, health, and public security, use

resources from the aggregate surplus and contracts the amount that could be appropriated by private capital. Thus, I classify all such civil servants labor employed in the public services sector as surplus depleting, and record the value added of that sector as additions to labor's share of the aggregate surplus.

Given these ramifications, the measure of surplus can be restated as

$$S = Y - w_b L_P - dK$$
$$= w_E L_P + w_{GS} L_{GS} + P + N + Ti - Z \tag{4}$$

where L_P and L_{GS} stand for "surplus-generating" and "surplus-depleting" labor; w_E is excess wage payments to surplus-generating labor; and w_{GS} is the average wage of the surplus-depleting public labor services. Given that excess wage income is measured in relation to small private enterprises in the manufacturing sector, and all public-employed civil servant labor income comprises the value of government services (G_S), one can *approximate* (4) by

$$S \cong [(w_G - w_s)L_G + (w_R - w_s)L_R + G_S] + P + N + (Ti - Z). \tag{5}$$

Note that this is an approximation because I implicitly assume away the claims of the nonindustrial (agriculture plus services) labor over the surplus. While it is not unreasonable to consider agricultural sector remunerations as being driven to costs of subsistence consumption, one is less confident in treating services sector wages as subsistence. However, given severe data limitations on labor income structure in the services sector in Turkey, and further given the primary motive of the paper to study the *changing mechanisms* of surplus extraction under structural adjustment, I will be more interested in the shifts of the relative importance of the sources of surplus, rather than their aggregate sizes in value terms. Nevertheless, it can also be argued that a substantial component of private services in Turkey is supplied through family — or self-employment through the informal sector, thus the relation in (5) above may still serve as a reasonable approximation of the aggregate surplus.

Thus, expression (5) will provide an analytical guide to various sources of surplus relevant for our purposes: *first* is the mechanism of surplus extraction through commercial policy instruments — the exchange rate and the export subsidization program. This mechanism enabled the export-oriented capital to extract resources

from the domestic economy by squeezing domestic absorption and transferring it externally through subsidized prices. It can be argued that the mechanism has been used intensively from 1980 through 1988, after which the rate of foreign exchange appreciated in real terms, and both the foreign debt accumulation and the current account balance turned positive in sign.

Secondly, there has been the classical surplus extraction mechanism based on wage-suppression against the wage-labor, and, through price deterioration, against the peasantry. This process was observed to be prevalent between 1982 and 1988, after which there occurred sharp increases in wage remunerations. It has to be noted that, given the underlying framework, part of this surplus was captured by the unionized workers, with the rest being appropriated by capitalists and the rentiers. In fact, after 1988, with unionized labor increasing its share of the surplus, capitalist classes were led to resort to different modes of surplus appropriation that, in retrospect, I will classify under the term "surplus extraction through price and fiscal policy." These mechanisms were based on domestic price inflation and the conduct of fiscal and monetary policies (terms P versus N), and also relied on intensification of the incentive system of subsidies and grants together with a rather lax attitude toward tax-evasion practices on corporate profits. This three-phase characterization of surplus appropriation is highlighted in Table 2 below, and will be taken up in more detail in the remaining pages of the paper.

THE SOCIOECONOMIC LEGACY OF IMPORT-SUBSTITUTION INDUSTRIALIZATION IN TURKEY

During the 1960s and 1970s Turkey undertook a very intensive import-substitution drive, which was implemented through quantity rationing of imports and a deliberate policy of overvalued exchange-rate administration. Growth, while rapid, was not uniform. The state was both an investing and a producing agent, with State Economic Enterprises (SEEs) being the major tools for fostering the industrialization targets. They were strategically placed in such heavy ventures as basic chemicals, petroleum products, machine tools and machinery. Their primary role has been the provision of cheap raw materials and inputs to private manufacturing industry and to agriculture. By a mandated policy of over-employment, they have also been instrumental in absorbing a significant portion of the domestic labor surplus.

Table 1

Main economic indicators, Turkey 1972-1992

	Import-substitutionist industrialization 1972-76	Economic crisis 1977-80	Export-orientation 1981-87	Fiscal repression unbounded financial liberalization 1988-92
Growth and accumulation				
Annual rate of real growth in:				
GDP	6.9	0.5	5.1	3.5
Agriculture	2.6	1.3	3.0	2.0
Industry	9.8	0.9	8.4	5.3
Fixed investment	16.2	-8.3	6.5	0.8
Manuf. inv. / Tot. inv. (%)	29.9	26.0	21.3	17.4
Manuf. exp. / Tot. exp. (%)	32.0	31.6	67.2	78.2
As a percentage of GDP				
Fixed investment	20.6	21.3	20.2	22.5
Aggregate savings	18.8	16.5	18.2	23.0
PSBR	5.0	8.6	5.5	10.1
Imports	11.7	11.2	19.3	20.0
Exports	5.3	4.2	12.4	14.3
Distribution and prices				
Annual percentage rate of change in:				
Consumer prices	21.3	61.0	37.8	68.2
Real exchange rate[a]	-9.9	-3.2[c]	7.5	-1.7
Domestic terms of trade[b]	1.0	-2.5	-1.1	3.3
Manuf. real wages	3.1	-1.1	-3.1	23.2[d]
Wages / Manuf. value added (%)	27.7	35.6	23.8	25.0[d]

Notes: a. Annual percentage rate of change in trade-shares weighted parity index, see Note 8 in the text. A positive term shows depreciation of the domestic currency (TL).

b. Rate of change of the ratio of agricultural to industrial prices.

c. 1977-79.

d. 1990-91.

Sources: SPO Annual Programs; SIS Manufacturing Industry Surveys; real exchange rate data, own calculations for 1972-76, Celâsun and Rodrik (1991) for 1977-80, Selçuk (1993) for other years.

In retrospect, the underlying class structure of the import-substitution industrialization (ISI) strategy of the period was one of grand, yet delicate, alliance between the bureaucratic elites, industrial capitalists, industrial workers, and the small peasantry (Boratav 1983). Accordingly, industrial private profits were fed from two sources: First, the protectionist trade regime, often implemented through strong non-tariff barriers, enabled industrialists to capture monopoly profits and rents originating from a readily available, protected domestic market. Secondly, the existence of a public enterprise system with the strategic role of producing cheap flows of intermediate inputs through artificially low, administrated prices

enabled the private industrial enterprises (also the rural economy) to minimize on material input costs.

Industrialists, in turn, can be claimed to have "accepted" the conditions of a general rise in the manufacturing real wages, and an agricultural price-support program that induced the domestic terms of trade to favor agriculture. This can be witnessed from Table 1, as both the manufacturing real wage and the agricultural terms of trade indexes are observed to increase in real terms from 1972 through 1976.

The driving force behind the increased real wages and the agricultural terms of trade actually lay in the economic rationale of the protectionist trade regime necessitating the creation of a mass-consumption market for the products produced by the national bourgeoisie. With the diversion of targeted production away from foreign toward the home market, there was a pressing need for sustaining the level of effective demand in the domestic economy; and this need was served through the increased wage remunerations. Thus, in such a setting wages had a dual function from the point of view of industrial capital: They were both a cost element and also served as an important component of the domestic effective demand. For it was through the rising wage incomes that a "mass-consumption market" could be sustained to provide the basis for internal effective demand. (This was in stark contrast with the prospective role of wages as constituting only a cost item under the conditions of 1980s, when the sources of effective demand would propel not from the home market, but from the external economy). This alliance, however, was to be sustained as long as real wage increases were limited to technological productivity improvements, and, in the meantime, was sufficiently strong enough to generate the necessary level of effective demand in the home market, but not so strong as to undermine the capitalist's share in industrial value added.

The ISI strategy was observed to reach its limits beginning in 1976 when financing of the balance of payments and the industrial investments became increasingly difficult. In fact, against the first oil shock of 1973-74, Turkish adjustment policies relied on increased foreign borrowing rather than revising the growth targets. The share of fixed investments in Gross National Product (GNP) increased from 17.5% in 1963-73 to 22.7% in 1974-76; and the per capita GNP growth rate accelerated from 3.2% during the 1960-73 period, to 5.2% in 1973-76. The availability of foreign credit enabled Turkey to continue its growth drive without any major adjustments in the exchange rate. The exchange rate appreciated by 9.9% in real

terms between 1972 and 1976, and brought about a significant reduction in incentives to export.

As these conditions were culminating in a foreign exchange crisis, the Turkish economy was hit by the second oil shock of 1979-80. Initial stabilization attempts in 1978-79 that were implemented through two standby agreements supervised by the IMF brought mixed results. While the current account improved, domestic inflation accelerated. Given the deterioration of external credibility in the international finance centers, foreign borrowing could not be increased any further; and imports of intermediate and capital goods had to be reduced substantially. Capacity utilization in industry fell, and the real GNP declined severely with real rates of growth of -0.4% in 1979, and -1.1% in 1980.

Within industrial manufacturing, organized labor increased its wage demands and succeeded in increasing its share in industrial value added from 28% in 1975, to 37% in 1979. Clearly the economic basis of the "grand alliance" was broken. The bourgeoisie responded to this development by switching its stance toward integration with the foreign economy and calling instead for external liberalization. The protectionist rents upon which industrial capital was fed for two decades were suddenly claimed as "irrational distortions leading to resource waste"; and the state enterprise system came to be regarded as a collection of outmoded, backward enterprises to be disposed of. The economic and political crises reinforced each other in cycles and led to a military intervention and the introduction of a "structural adjustment" reform program in 1980.

The military regime consolidated the political power of the bourgeoisie, and destroyed the opposition of the working classes through drafting a new constitution with many restrictive articles on civil rights. Today it is a common observation shared by many students of the Turkish economy that the 1980 adjustment reform program could not have been applied under civilian conditions without the authoritarian involvement of the military.

The January 1980 reform package aimed not only at short-run stabilization, but also at changing the structure of the economy, moving it toward a more outward orientation by increasing the role of the private sector and the market forces.[7] The reform program was devised and monitored closely by the IMF and the World Bank and was backed with a generous financial assistance from IMF sources, totaling SDR 1,250 (1,630 million U.S. dollars) signed in June 1980 (the largest sum granted to any Third World country until then).

Even though there never was a detailed, official blueprint of the policies to be followed under the adjustment program, the following guidelines could nonetheless be inferred: First, the primary concern was the attainment of equilibrium in the commodity and trade markets and the revelation of the rate of domestic inflation. This meant implementation of a vigorous price reform, especially in the public industrial sector, and also the abolishing of the existing system of multiple foreign exchange rates. Secondly, sectoral priorities shifted in favor of export-oriented manufactures and commercial services. To this end, the Turkish Lira was devalued sharply and a crawling-peg regime of foreign exchange administration was adopted. An extensive direct export promotion scheme was introduced that consisted of income tax rebates, preferential credit arrangements, and duty-free allowances for intermediate imports. Import procedures were restructured, and by 1983 all quantitative restrictions were eliminated.

The third objective of the program was financial liberalization. This meant a strict policy commitment to maintaining positive real interest rates, with the presumption that in due course higher savings, and hence investment, would be achieved and the need for external finance lessened. Finally, the role of the public sector in the economy was to be reduced by both privatization of the state enterprises, and also by reducing the extent of administrative interventions of the central government.

Clearly all these called for sharp shifts in the underlying economic polity with the emergence and administration of new modes of surplus extraction mechanisms throughout the course of "adjustment." It is to the detailed analysis of these shifts that I now turn my attention.

MODES OF SURPLUS EXTRACTION DURING STRUCTURAL ADJUSTMENT

As manifested through the above-mentioned shifts in the dominant nature of surplus extraction under the Turkish adjustment experience, I will study four main mechanisms for creating and sustaining capitalist incomes: The first mechanism is based on the resolution of the integration process between the domestic and foreign markets through movements of the exchange rate, flows of foreign capital, and the structure of the traded commodity prices. The second is determined by the position of the capitalist class against labor and other primary factors of production. A third mechanism is due to the process of surplus extraction based on the

position of the capitalist class vis-a-vis the state, through the conduct of fiscal policy; and a fourth one rests upon the state's price administration policy. I now examine these four mechanisms of surplus extraction in turn.

### Surplus extraction under the new trade regime

The initiated outward orientation opened new venues of surplus appropriation for the capitalist classes. The major instruments of the new trade regime have been the exchange rate and direct subsidies to exporters. Commercial policies in this manner became the leading mechanism in squeezing the domestic absorption capacity to generate an exportable surplus for the export-oriented manufacturing capital. This exportable surplus was to be obtained through generation of excess supply by reducing the effective domestic demand on national output. This in turn necessitated reductions in wage remunerations, the process that I discuss below.

With the adoption of an open pro-export stance and the introduction of a crawling-peg regime of exchange rate administration based on daily adjustments of the Lira, the real rate of exchange[8] depreciated by almost 70% until 1988. Subsidies on manufacturing exports were also significant, averaging around 25% of the foreign currency value of the manufactured exports, reaching a peak of 35% in 1983. The most important component of the subsidy was the production tax rebates, which accounted for about half of the subsidies granted in 1982 and 1983, and amounted to as much as 75% of the total subsidy rate in 1984, during which the rebate rates were finally being scaled down (Milanovic 1986). In addition to being a source of high losses to the central government budget, the rebate scheme was held responsible for "export-oriented rent seeking" by way of over-invoicing of exports and through the emergence of the so-called fictitious exports.[9]

Figure 1 discloses the relative cost of export subsidies on the government budget, and contrasts it with the level of corporate income tax revenues of the government. As observed, export subsidies reach a peak of 22% of the government's resources during 1984 and 1988, and in general exceed the level of corporate taxes paid throughout the decade (with the single exception of 1986). If one is to regard the share of corporate taxes in budget revenues as the contribution of capital to the social revenue pool of the civil society, one can infer that a substantial surplus transfer from non-capital owners (and from future generations through

Figure 1

Export subsidies, taxes on corporate incomes and budget revenues
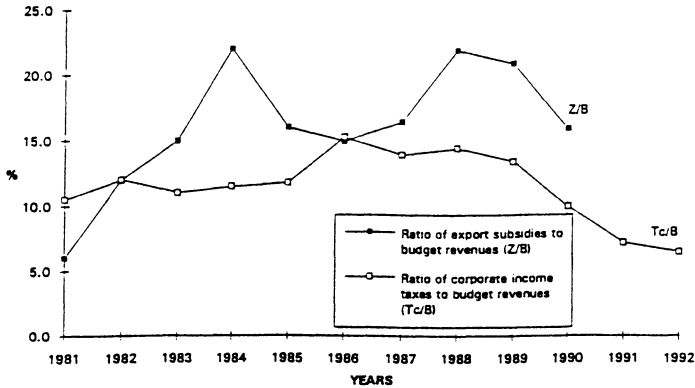
indebtedness) has indirectly occurred during the adjustment period. The size of this transfer finally gave way to the eruption of the fiscal crisis beginning 1992 as reflected in the steep rise of the PSBR ratio to GNP.

Export promotion was also supported at the institutional level via creation and re-organization of specialized export firms under the status of Foreign Trade Companies (FTCs). FTCs were built upon the East Asian model of export promotion, and were thought to function as the long arm of the domestic industrial capital in reaching the foreign markets at a centralized scale. Those FTCs that were able to meet specific export volume targets were granted additional subsidization by the government. Thus, it was through the FTCs that the large-scale, export-oriented capital could enmass the rents of the new trade regime.

FTCs, by law, were not allowed to engage in production and investment activities. However, they evolved as "the marketing outlets of domestic corporations, [and] organic links exist[ed] between FTCs and the major domestic industrial, trading or construction conglomerates" (Onis 1992: 77-78). According to calculations in Onis, the share of FTC-based exports in total exports has increased steadily to a peak of 49.6% in 1986. In general, the rate of growth of FTC exports was far more rapid than that of total

Table 2

Phases of surplus extraction and resource transfer under Turkish structural adjustment 1980-1992

Surplus extraction:		through commercial policy				through wage suppression			through pricing and fiscal policy				
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
I. Production and accumulation													
Annual Growth Rate (%)													
1. GDP	-1.0	3.6	4.5	3.9	6.0	4.2	7.3	6.5	4.6	0.4	8.1	0.5	5.9
2. Agriculture	1.7	0.1	6.4	-0.1	3.5	2.4	7.9	2.1	8.0	-11.5	11.3	-1.2	3.7
3. Manufacturing	-6.0	9.5	5.4	8.7	10.2	5.5	9.6	9.9	1.8	3.2	10.1	2.3	5.6
4. Commerce	-4.1	7.4	4.6	6.9	8.0	4.6	9.4	9.9	3.8	5.8	12.1	-1.1	6.0
5. Financial ins.	1.8	1.9	1.6	0.5	4.5	3.5	3.7	3.6	4.7	1.8	3.5	0.8	-2.1
6. Productivity in private manuf. [a,b]	100.0	108.9	109.0	117.3	121.3	130.1	167.1	171.4	163.8	161.2	197.5	248.5	-
7. Manufacturing investment [a]	100.0	104.2	97.7	95.4	94.8	104.1	119.1	109.7	100.7	86.8	127.7	128.8	131.6
8. Capacity use in manuf. (%)	51.1	62.1	66.8	69.6	72.0	72.7	72.7	75.2	74.8	74.8	73.0	71.4	73.8
II. Distribution and prices [a]													
9. Real wages [c]	100.0	104.3	97.8	94.4	88.6	85.4	81.7	80.2	74.4	93.2	110.4	146.6	-
10. Real profits [d]	100.0	96.6	95.6	109.8	153.5	215.2	175.6	229.3	202.5	185.3	-	-	-
11. Real eff. exchange rate	100.0	108.2	121.1	126.8	132.8	131.4	152.5	166.1	167.6	153.7	140.3	143.2	152.8
12. Real interest rate (%) [e]	-33.1	2.9	7.8	6.7	-4.5	7.6	12.5	5.9	5.0	5.0	-3.9	6.6	10.4
13. Producer prices													
Private	100.0	131.1	166.2	219.9	323.3	453.1	613.8	860.3	1546.5	2530.8	3637.7	5154.8	8328.1
Public	100.0	131.1	165.2	213.7	311.5	451.8	576.8	702.4	1219.1	2033.3	3241.7	5642.5	9064.3
14. Inflation rate (%) (CPI)	110.2	36.6	29.9	31.4	48.4	44.9	34.6	38.9	75.4	69.6	63.6	63.0	70.7
15. Domestic terms of trade [f]	100.0	97.2	84.2	88.0	98.2	94.7	92.3	87.7	74.0	85.9	105.1	98.4	-

Table 2 *(continued)*

Surplus extraction:	through commercial policy												
						through wage suppression							
									through pricing and fiscal policy				
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
III. Internationalization													
16. Manuf. exports	100.0	218.7	327.6	349.4	491.4	572.6	508.5	770.3	854.3	867.8	970.8	1010.6	1164.4
17. Imports / GNP (%)	14.2	15.6	17.0	18.4	22.2	21.8	19.3	20.9	20.3	22.1	23.1	19.4	20.3
18. Exports / GNP (%)	5.1	8.3	10.9	11.3	14.3	15.1	12.5	14.9	16.4	16.2	13.4	12.5	13.1
19. Current account / GNP (%)	-5.9	-3.5	-1.8	-3.7	-2.9	-1.9	-2.5	-1.2	-2.3	0.9	1.8	0.2	-0.8
20. Foreign debt / GNP (%)	19.7	28.6	32.5	35.7	42.2	47.5	54.6	58.8	57.5	52.0	44.5	46.5	48.4
21. ST Foreign capital inflow (mil $)	-	-	-	-	-652	1479	812	50	-2281	-584	3000	-3020	1396

Notes: a. Index (1980=100) based on 1980 prices, deflated by the manufacturing producer index.
b. Private manufacturing value added per labor employed.
c. Annual wage payments in manufacturing deflated by CPI.
d. Total profits of 500 largest firms deflated by the producer price index.
e. Annual average of 1-year time deposits deflated by producer price index.
f. Terms of trade between the prices received by farmers and the prices paid by them for current inputs and capital goods.

Sources: Rows 1-5, 7, 16-20: SPO Annual Programs; Rows 6, 8, 9: SIS Manufacturing Industry Surveys; Row 10: Petrol-İş Almanac (1990); Row 11: Selçuk (1993); Rows 12-14: SIS Monthly Bulletins; Rows 15 and 21: Boratav et al. (1993, Table IV.4).

exports. Consequently, the degree of concentration of FTC exports remained high, with the top four contributing about a third, and the top eight registering about half of total exports by 1988. Clearly, such FTC-based export orientation was in conflict with the stated stance of the state toward a liberal market economy based on price rather than administrative incentives; it nevertheless was in direct conformity with the mode of surplus extraction by the export-oriented capitalist class.

Surplus extraction from wage-labor

One of the first measures of the military regime of 1980 was to regulate the labor market through political authoritarianism, depoliticization and demobilization of the labor force (Cizre-Sakallloglu 1991; Boratav 1991). With the imposition of the 1982 Constitution and new articles in the 1983 Labor Code, the position of wage-labor vis-a-vis capital eroded dramatically throughout the decade. As soon as it assumed power, the military government shut down the major union confederations, leaving only Turk-Is (which has a record of relative co-option and loyalty to the state with a mandated priority to wage-bargaining over politically active, radical unionism). Trade unions were barred from engaging in political activity and establishing formal or informal links with the political parties. With the new Labor Code of 1983, the right to strike was severely restricted, and was limited only to the collective bargaining disputes. Even then, a strike could be prohibited or postponed, and the dispute could be settled from outside by a new body called the Supreme Board of Arbitration. Through this body the state exercised strict control and supervision over industrial relations, and regulated the evolution of wage demands effectively.

Consequently, wage-labor suffered serious setbacks in its remunerations. As the data in Table 2 reveal, the decline in the real wage rate reached almost 25% between 1980-88, while real profits (as reported by the largest 500 companies) almost doubled. While it is a widely recognized fact that the quality of such data on factor income shares is limited in scope and suffers from severe shortcomings, many independent researchers agree on the severe decline of the share of wage income, and the rise of the non-labor component of manufacturing value added in the 1980s. Özmucur (1991a, 1991b) for instance argues that the share of non-wage income in non-agricultural value added increased from 65% in 1980 to 72% in 1991. Similarly, Boratav (1991) reports that the share of wages in manufacturing value added fell from its peak of 38.7% in 1979 to 22.4% in 1985. Clearly, it can be argued on many grounds

Table 3

Approximation of surplus accruing to labor (real billion TL, 1980 prices)

	1983	1984	1985	1986	1987	1988	1989	1990	1991
Excess wage rate in manufacturing									
1. Public (W_G / W_S)	2.94	2.68	2.55	2.48	2.35	2.38	3.26	3.18	3.61
2. Large private (W_R / W_S)	2.31	2.25	2.32	2.24	2.09	2.15	2.32	2.32	2.33
Excess wage income in manufacturing[*]									
3. Public ($W_G-W_S)L_G$	68.16	22.74	49.15	45.43	43.09	41.70	67.00	76.02	109.64
4. Large private ($W_R-W_S)L_R$	85.63	82.38	86.43	85.67	84.03	92.38	110.38	134.50	155.52
5. Aggregate excess wage income / manufacturing value added	0.14	0.13	0.11	0.08	0.08	0.08	0.11	0.12	0.15
6. Public services labor (G_S)[*]	366.02	308.55	290.23	309.23	376.41	383.12	534.49	692.43	790.66
7. Total surplus of labor (3+4+6)	519.82	446.67	425.82	440.33	503.54	517.22	711.87	902.97	1055.83
8. Ratio of total surplus of labor to GNP	0.08	0.06	0.05	0.05	0.06	0.06	0.08	0.10	0.13

Note: 　* Real values in 1980 prices, deflated by CPI. Large private manufacturing firms are those which employ 25+ workers. See also Note 4.
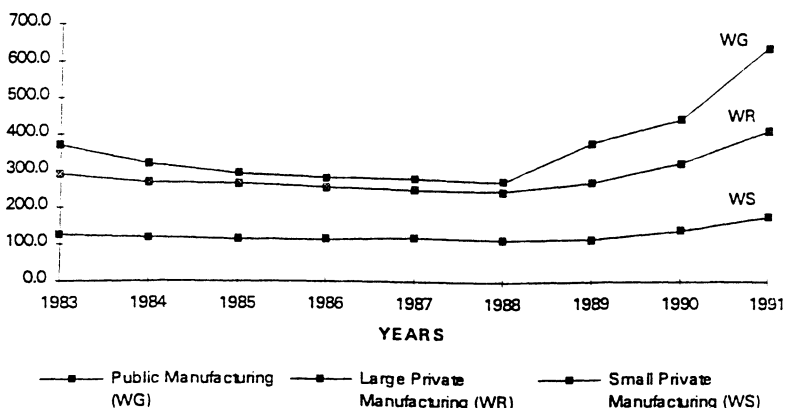
Sources: SIS, Manufacturing Industry Annual Surveys; SIS, Statistical Yearbooks

that there has been a severe intensification of direct surplus extraction by way of suppression of wage incomes in the post-1980 structural adjustment period.

Table 3 presents the main phases of this process and gives a quantitative estimate of the squeeze of labor's share from the economic surplus. Surplus accruing to industrial labor (as measured by the use of opportunity cost conceptualization in (3) above) decreased from 14% of industrial value added in 1983 to 8% in 1988. With a mandated ideology of reducing government's role in the economic sphere, the value of public services fell severely in real terms in the first half of the decade; and the ratio of total surplus of labor to gross national product averaged around 5.5% until 1988.

It has to be noted that one of the major components of this transfer mechanism was the continued price inflation, enabling both the wage squeeze to be captured as surplus profits for capital, and also inflation tax revenues for the state. Implemented under a regime of continued currency depreciation supplemented by direct export incentives, inflation policy did not seem to lead to any loss of competitiveness of Turkish exportables. This mechanism, however, had to come to a halt beginning in 1988, as possibilities of prolonged depreciation and wage suppression finally came to grips with the "political rationality" (Onis 1991). Beginning in 1989, wage demands of industrial labor intensified, and real wages started to increase — first in the public sector, then followed by the private

Figure 2

Excess wage income in manufacturing industry

Note: Manufacturing industry annual real wages (1980 prices, thousand TL.)
Sources: SIS Manufacturing Industry Surveys

sector. As portrayed in Figure 2, public sector labor succeeded in increasing its real wages by almost 200% between 1989 and 1991, and its claims over the industrial surplus have increased. Clearly, the mechanism of classical surplus appropriation through suppressing wage costs reached its limits by 1989, and new modes of surplus extraction had to be implemented.

With possibilities of further surplus extraction via wage suppression limited, the state's involvement in economic matters had to be intensified in order to sustain the income levels of the bourgeoisie. This called for an actual increase in the economic and administrative interventions of the state despite the officially stated stance, and the rest of the paper examines these mechanisms of surplus extraction.

Surplus extraction and surplus transfer through fiscal policy
Throughout the adjustment era, there emerged a significant need to reorganize the state apparatus so as to achieve conformity between the economic rationale of the market forces and the political realities of the policymaking process. Indeed, the Turkish experience of the 1980s scored a leading example of how the stated objectives of the structural adjustment program toward lesser involvement of the

government with the economic affairs may run counter to both the economic/political realities of the market and the interests of the surplus-extracting groups which command power, especially those of the industrial capital.

First and foremost, the political rationale of the adjustment efforts necessitated the continued presence of the state as both a productive and a regulating agent in economic affairs. In the Turkish context, this meant, first of all, increased control and supervision of industrial relations and repression of the labor market, as was seen above. As thoroughly discussed in Onis (1991: 32-33), state involvement in the economic sphere continued in various other forms – through the significant role played by the public enterprise system as a producer and employer in manufacturing; through dominance of the government securities and bonds in the financial system; and through the administration of a complex incentive system of subsidies and grants, often implemented by different layers of a firmly centralized bureaucracy.

Figure 3 discloses a leading element of the incentive system: the amount of aggregate investment subject to incentive certification by the government (measured in real 1980 prices). As observed, the real value of investment under the incentive certification system, after fluctuating around 300 billion TL between 1980 to 1984, jumped to the plateau of 800 billion TL, and re-accelerated to 1,625 billion TL in real 1980 prices. In the meantime, the number of incentive certificates increased rapidly from 573 in 1980 to 1,031 in 1983, and to 3,141 in 1990.[10]

Concurrently, incidents of tax evasion relating to corporate incomes mounted, and a process of surplus extraction resurfaced based on tax allowances, exemptions and other forms of incentives granted to capital owners to retain their otherwise taxable income. Figure 1 above displays the relatively "minuscule" size of the corporate tax share in the government's budget revenues. As observed from that figure, in the initial years of the reform, there was a gradual increase in capital's tax share to reach 14% in 1984, with an average of 9.1% over the decade. Interestingly, this ratio started to fall after 1988, after which the limits of classical surplus extraction mechanisms based on wage reductions were exhausted. The corporate tax share registered 7.2% in 1991 and 6.5% in 1992. Thus, culminating pressures on the economic surplus by wage-labor were alleviated through the incentives system and the fiscal policy, replacing the prior mode of classical surplus extraction based on wage suppression.

Figure 3

Total investment under incentive certification (billion TL, 1980 prices)

Data tabulated from Organization for Economic Cooperation and Development (OECD) sources further underscore this mechanism. It is calculated that, as percent of total sales, operational profits of the private manufacturing enterprises rose by 6.7 percentage points between 1982 and 1988, while the corporate tax-sales ratio changed only marginally from 2.7% in 1982 to 3.5% in 1988 (OECD 1991: 7, Table 32). Consequently, the net profits-sales ratio increased threefold over the relevant time span. This episode is not entirely new for Turkey, as it recalls the economic crisis period of 1977-80, during which the corporate tax share was observed to fall below 5%. Thus, fiscal policy should be regarded as an important reserve of the surplus appropriation mechanisms, gaining importance whenever possibilities of classical surplus extraction are limited.

Surplus extraction through price administration
Since the early days of the adjustment program, the rural economy witnessed widespread marginalization of the peasantry and intensification of the transfer of resources from villages to the urban industrial centers (Mutlu 1990; Boratav et al. 1993). Indexes of the domestic terms of trade can be cited as an important indicator of the welfare of the rural economy, and may provide some evidence on the internal transfer of surplus from agriculture. Implementation

of the price reform in 1980, which led to cutbacks in the farm support prices, along with the introduction of biased export-incentives scheme favoring manufacturing industries, caused a substantial fall in the relative net price of agriculture. (See Table 1). As a result, one observes a persistent, dramatic collapse of the domestic terms of trade for agriculture. The relative recovery of the period 1990-91 parallels the rise in the purchasing power of the wage earners after the significant real wage increases and the general "populist" stance of the state.

The adjustment pattern of the rural economy to the price collapse has been through contraction of fixed investments in agriculture. Thus, private fixed investments in the sector fell to one-third of their 1976 levels in real terms (Boratav et al. 1993), and led to a serious erosion of capital accumulation in the sector. As for the industrial sector, the state's pricing policy can be studied by contrasting the differential movement of the private versus public manufacturing producer prices. Here we observe that, until 1985, the two series move almost together. This co-movement was the direct outcome of price reforms aimed at deregulating the state's control over pricing policy of the public enterprise system. There was a change of stance beginning in 1986, however, and the spread between the public and the private price inflation widened in favor of the latter. In fact, the period from 1980 to 1988, the index of private producer prices is observed to exceed that of the nominal wages by 54%. These observations suggest that, within private manufacturing, price inflation, through rigid producer markups over prime costs, has constituted an important mechanism for extracting oligopolistic profits (Yeldan 1993, Boratav 1991).

This diverse movement can further be contrasted with the evolution of the wage share in sectoral value added of the manufacturing industry. As Figure 4 portrays, the share of wages in aggregate output in both public and private manufacturing follows the same secular downward trend through 1988. With the sharp increase of wages in 1989, however, the wage share obtains an upturn, a phenomenon that is especially pronounced in the public sector.

Private industrial enterprises confronted the wage increases with layoffs and subcontracting arrangements with temporary, non-unionized workers. Another important venue of adjustment for private capital had been the sudden decline of the cost of material inputs relative to wage costs. According to the SIS Manufacturing Statistics, this ratio, which was 11.6 in 1988, rapidly fell to 7.8 in 1990 and to 6.5 in 1991. Thus, the decline in the cost of material

Figure 4

**Share of wage costs in manufacturing output**
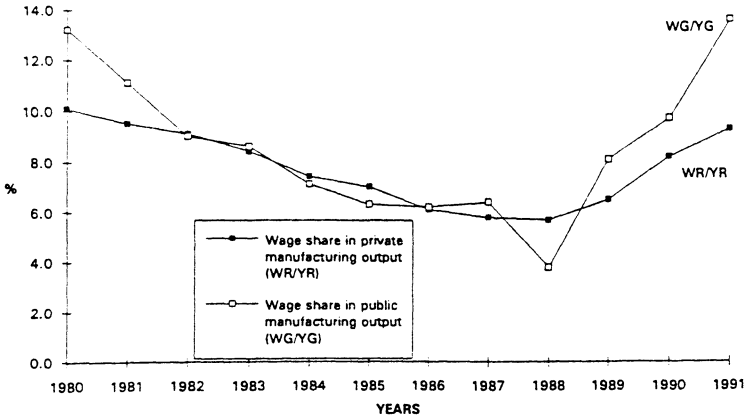
inputs gave sufficient leeway to the private industrial capital in confronting the wage explosion.

This development, however, was again achieved through the active administrative involvement of the state in the intermediate input markets. To see this mechanism of surplus extraction more closely, the strategic pricing behavior of the state enterprise system has to be underlined. As indicated above, historically state enterprises were placed in such heavy ventures as basic chemicals, petroleum products, machine tools and machinery, with their primary role being the provision of a continued supply of cheap raw materials and inputs to private manufacturing and agriculture. Thus, lagging public sector prices have actually grown out of the "economic rationality" of the state enterprise system for sustaining the profitability of private capital.

Figure 5 clearly exhibits this dilemma of rational public sector pricing versus private sector profitability of the adjustment period. This "dilemma" is a direct reflection of the technological resource dependence of the private industrial enterprises on the material inputs and machine tools strategically supplied by the public enterprise system. Rational pricing of the latter leads, through increased input costs, to a profit squeeze in the former. As portrayed in Figure 5, one can observe a clear, counter-cyclical

Figure 5

Capital's position towards the State: profitability
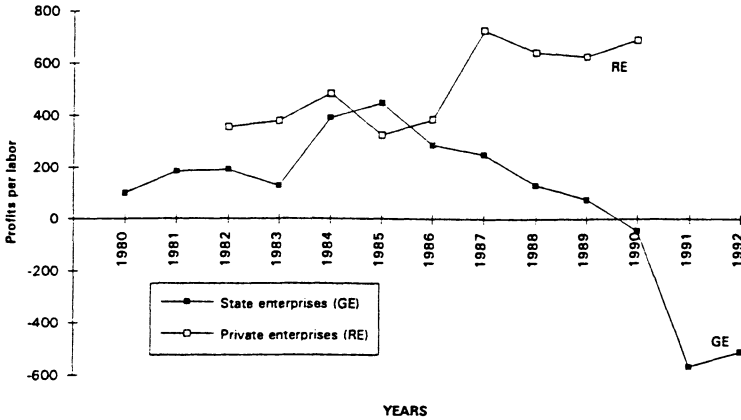
Note: Real profits per employee in SEE's and 150 largest private industrial enterprises (thousand TL in 1980 prises, deflated by the producer price index)

Sources: For SEE data: Undersecretariat of Treasury and Foreign Trade, *Main Economic Indicators*; for private enterprises: İstanbul Chamber of Industry (İSO), *150 Largest Private Enterprises* No: 1993/3.

pattern of per capita profitability in the largest 150 private firms and the state enterprises. The periods in which public enterprise profitability increases are synchronized almost perfectly with the faltering performance of private sector profitability, and vice versa. Especially after 1986, the profitability gap rapidly widens in favor of private capital, supporting the above hypothesis with regard to the mode of surplus extraction based on price administration.

Clearly, the administrative involvement of the state in pricing of the intermediate inputs produced and marketed by the public enterprise system was in direct conflict with the stated objectives of the reform program. Accordingly, under the policy of "getting prices right," all prices had to be left to the unfettered workings of the market forces in order to achieve full rationality expected from the competitive markets. Doing so, however, would lead to increased costs for the private industrial capital. Thus, to maintain the processes of surplus extraction, it was found necessary for the state actually to interfere with the producer prices in the public sector.

This apparent contradiction between the stated objectives of the reform program and the continued (even increased) dominance of

the state in the economic sphere remains a challenge to be explained by the proponents of the liberalization orthodoxy. The orthodox view of adjustment rests on a simplistic conceptualization of the tensions between an "authoritarian government" and the "civil society," wherein excessive government intervention leads to distortions and unproductive rent-seeking activities with less-than-optimal growth patterns. Thus, "less government intervention" is regarded as the ultimate solution to end such waste and corruption. However, what is missing in this ahistorical view is that, in most parts of the developing world today, the very sources of private capital accumulation spring from the supporting directives of the governments; and that the bourgeoisie as a historical phenomenon itself is a creation of the state; molded, protected, and fed upon the various sources of rents that emanate from the process of Third World capitalism as is seen today. Thus, the so-called rent-seeking activities and the associated waste result not from excessive government intervention, but from the very process of how private capital seeks to appropriate resources to sustain its profits, with the state acting as a regulatory agent, if necessary, to bring forth the warranted shifts in the mode of surplus extraction.

THE "FINANCIAL REVOLUTION" AND REDISTRIBUTION OF THE SURPLUS

In line with the structural adjustment reforms, Turkish attempts toward liberalizing its financial system began in 1981 with freeing the deposit interest rates of their ceilings. In the credit market, the Central Bank's control over commercial banks was simplified with a revision of the liquidity and the reserve requirement system. An interbank money market for short-term borrowing facilities was established in 1986; and in 1987, the Central Bank diversified its monetary instruments by starting open market operations. The foreign exchange regime was liberalized in 1984. The banks were allowed to accept foreign deposits from citizens and to engage in foreign transactions. The capital account was liberalized fully in 1989 with an official announcement of full convertibility of the Lira against all foreign currencies.

What was expected from this episode was increased efficiency of the flow of funds from savers to ultimate investors via "deepening" of the financial markets. This hypothesis was theorized most vehemently by McKinnon (1973) and Shaw (1973). They argued that in a "financially repressed" economy, the real rate of interest is lower than its equilibrium, and an inefficient informal credit market

coexists along the banking sector. In such an environment savings are low, and are held mostly in the form of "unproductive" assets, such as gold and commodity stocks. Thus, available loanable funds are restricted; and credit has to be rationed, with accompanying distortions in the choice of technology, leading to lower employment and lower growth. Financial liberalization, on the other hand, restores equilibrium in the credit market with positive interest rates and increases private savings toward bank deposits and loanable funds, with the end result that a higher investment rate is materialized.

Without doubt, the Turkish reforms succeeded in "financial deepening" of the system in terms of the conventional criteria. For example, the ratio of total deposits to GNP has risen from 18.6% in 1982 to 26.6% in 1990; and the stock of all financial assets reached to 44.0% in 1992, as compared to its level of 26.7% in 1981. In the meantime, commerce and financial services increased their shares in the composition of gross domestic product (see Table 4).

Contrary to expectations, however, the private saving rate was stagnant until 1986, despite the rapid rise of the real interest rate on deposits. Aggregate savings increased substantially toward the end of the decade; yet, this development occurred mostly as a result of the surge in housing demand in lieu of subsidized credits obtained from the Public Housing Fund. With respect to private investment, on the other hand, empirical studies on Turkey reported negative and/or insignificant effects of the real rate of interest during the 1980s.[11] Meanwhile it was observed that the public's share in the financial markets remained high. The financing behavior of the corporations did not show significant change, and credit financing from the banking sector and inter-firm borrowing continued. Furthermore, the share of private sector securities in the total fell to 6.3% in 1988, as compared to its peak of 10.8% in 1982 (OECD 1988: 80-81).

Mostly as a result of these developments, the ratio of private gross fixed capital formation (GFCF) to GNP declined until 1986. Thereafter, with the surges in the housing investment demand in the second half of the decade, that ratio started to increase, but did not quite reach the historical levels of the mid-1970s. Furthermore, the share of manufacturing investments in aggregate private investments was observed to fall throughout the decade. In fact, in 1992, total real GFCF was below its 1977 level in the agriculture, mining, manufacturing and energy sectors.

A variety of arguments had been provided to explain these phenomena: First, as argued in Uygur (1993), at a theoretical level,

Table 4

Indicators of relative profitability and redistribution of the surplus, 1980-1992

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
1. Share of interest costs in industrial value added	-	-	31.0	29.9	33.1	36.2	45.1	35.1	38.4	30.4	24.8	35.7	-
2A. Current profits of the banking sector[a]	7.6	12.5	12.6	29.6	77.1	106.3	244.2	471.7	884.9	1028.0	2120.3	4109.1	6182.9
2B. Index of real profits of the banking sector[b]	100.0	120.4	93.8	167.6	293.2	279.3	476.8	662.5	708.3	485.2	611.7	700.3	617.1
2C. Ratio of banking sector interest and commission income to total credit (%)	17.7	22.1	26.0	27.4	34.9	30.3	30.5	27.2	36.3	34.0	33.1	-	-
3A. Index of total real interest income	100.0	-	-	393	488	579	677	695	857	929	859	-	-
3B. Total interest income / GDP (%)	2.0	-	-	6.3	7.9	8.5	8.8	8.2	9.8	10.3	8.7	-	-
3C. Govn. debt instruments / GDP (%)	-	-	2.1	3.0	2.9	3.7	3.8	4.1	4.9	6.1	6.2	6.8	10.8
4A. Financial value added / GDP (%)	2.0	2.2	2.1	2.3	2.2	2.2	2.4	3.0	3.3	2.8	3.2	4.2	4.3
4B. Commercial value added / GDP (%)[c]	16.5	17.7	17.9	18.3	19.2	19.0	17.9	20.3	20.3	19.7	19.5	18.9	19.1
5. Real rates of return on financial assets (%)[d]													
Saving deposits	-34.4	-	-	-	-	5.5	12.3	5.1	9.1	-6.0	2.3	8.5	2.9
Treasury bills – 6-months	-	-	-	-	-	-	22.1	7.9	3.4	-1.6	3.4	18.6	17.1
Treasury bills – 1-year	-	-	-	-	-	6.3	18.4	5.6	0.9	-2.7	1.3	12.8	9.7

Notes: a. Private commercial banks' balance sheet profits, current billion TL.
     b. Deflated by CPI, 1980 prices.
     c. Includes wholesale and retail trade, transports and communications.
     d. After tax real rates of return, deflated by wholesale price index.

Sources: Row 1: ISO (1991); Rows 2A, 2B: Türk Bankalar Birliği; Row 2C: Ada (1992); Rows 3A, 3B: Boratav et al. (1993, Table IV.8); Row 3C:
     Undersecreteriat of Treasury (1993); Rows 4A, 4B: SIS, Statistical Yearbooks; Row 5: Sak (1993).

changes in the interest rate call for both a substitution effect and an income effect. The substitution effect tends to bring forth the McKinnon-Shaw adjustment toward an increase in savings by the decline in the value of future consumption relative to present consumption due to an increased interest rate. Counteracting this, there may be an offsetting income effect due to the possible reductions in present savings in order to accommodate a future consumption target when the interest rate is rising. This latter effect seems to be overlooked by proponents of the McKinnon-Shaw hypothesis, as the net outcome may produce ambiguous results.

Secondly, it has to be recognized that financial deepening may simply mean a change in the composition of savings and investment, rather than their level. This would be the case if financial liberalization is accompanied by a marked redistribution of income toward rentiers exhibiting high degrees of conspicuous consumption patterns, with low propensities to save and invest. This mechanism may result in lower aggregate savings and investment, and, according to Akyuz (1992), it seems to offer an important factor explaining the poor investment performance of the Turkish economy in the 1980s.

Finally, there is the neo-structuralist view that the so-called financial deepening can, in essence, "be the symptom of a deterioration in the fiscal balances of the corporate and public sectors, and [may] reflect an accumulation of debt by them for purposes other than the financing of additional investment" (Akyüz 1992: 7). (See also Taylor 1983, Buffie 1984). This process particularly became the experience of Turkey, as the state was observed to seize the opportunities of expanding financial markets by increased financing of its expenditures via new issues of debt instruments, thereby escaping the Central Bank's limitations on direct monetization through new issues of currency. In order to cover an ever-increasing Public Sector Borrowing Requirement (PSBR), the government offered highly competitive rates of return on its debt instruments often at par with those of the alternative assets (Table 4 row 5). The commercial banking system has been the major customer of such securities, and consequently the share of credits in the total assets of the banking system declined from 51.3% in 1980 to 36.5% in 1992 (Boratav et al. 1993).

As to be expected in such an environment with financial rates of return exceeding those on physical investments with wide margins, the 1980s witnessed an increased flow of resources into the idle financial assets of industrial enterprises. As an indicator of this point, Boratav et al. (1993) report, for instance, that the share of

nonindustrial revenues in total revenues of the 500 Largest
Industrial Firms averaged 45% in 1991-92, as compared to 17.5%
in 1982-83. Most of these consist of returns to short-term financial
instruments and document the unnatural case of industrialists
increasingly acting as financial rentiers.

Thus, contrary to the alleged pro-privatization stance, the state
emerged as the "pioneer of financial deepening" in Turkey; and the
Turkish experience thus far did not conform to the McKinnon-Shaw
hypothesis, prognosticating a shift of portfolio selection from
unproductive assets to those favoring fixed capital formation.

An important attribute of all these processes was observed to be
the phenomenal diversion of surplus in favor of the financial
economy, and the accumulation of financial profits in the
commercial banking sector. Real profits of the private commercial
banks are observed to increase by six time their original over the
decade, with the real profitability index of the industrial firms
reaching ov er two and a half times that of 1989. It is true in general
that these figures have to be interpreted with caution, as they relate
to the self-reported accounting profits of the commercial banks, and
suffer from "over-invoicing" practices. Even so, they give a rough
idea on the second tier distributional conflict resolution among the
surplus extractors.

Concurrently, the share of interest costs claimed more than a third
of industrial value added, and total interest income as a proportion
of gross domestic product increased to 10.3% in 1989, from its
minuscule level of 2.0% in 1980. The interest income rose to over
nine times its original level in real terms over the period from 1980
to 1989 (see Table 4).

Following the complete liberalization of the capital account in
1989, the orthodox obsession with positive real rates of interest was
reinforced with yet another factor: the pressing demands of the
external financial economy. As the domestic economy moved to a
higher inflationary plateau (of annual rates around 70%) toward the
end of the decade, the threat of dollarization became imminent, and
necessitated further commitments to high real intere]st rates. The
outcome was the emergence of a vicious circle: A commitment to
high interest rates and cheap foreign currency against the threat of
capital flight leads to heavy strain on physical capital investments
and on the current account of the balance of payments. With the
culmination of the adverse destabilizing processes in the current
account, expectations for real depreciation are intensified, which,
yet may be confronted by further upward adjustments in the real
interest rate to prevent currency substitution and capital flight. All

these developments portray an extremely volatile and unpredictable environment for the 1990s, with Turkey approaching the famous Diaz-Alejandro cycle of financial repression-financial liberalization-financial crash.

SUMMARY AND CONCLUSIONS

Turkish adjustment experience through the 1980s reveals a process in which a developing market economy trapped within the needs of the domestic industry toward integration with the world markets and the distributional requirements warranted by such re-orientation, the state apparatus became the dominant agent regulating the mode of surplus appropriation for the surplus-extracting groups. Surplus appropriation involved both direct mechanisms toward attaining more favorable export subsidies, currency depreciation, wage-suppression, as well as indirect mechanisms of tax evasion, conduct of macro-pricing policies and re-coding of the laws in crucial spheres of economic life.

It was argued that wage suppression in the initial phases of the adjustment program has been an important factor in squeezing the domestic absorption to obtain an exportable surplus. Export promotion was further supported through direct and indirect subsidies and formation of new institutional bodies. As the classical mechanisms of direct surplus creation based on wage suppression reached their limits by the end of the decade, the state apparatus had to be renovated toward sustaining the size of the aggregate surplus. The decline in the profitability of the state economic enterprise system through regulated pricing, a lenient and expansionary fiscal policy toward wage incomes to control workers' demands, and a relatively lax attitude toward taxing corporate incomes were all but different facets of this process.

The fiscal requirements of these actions were financed through the newly emerging financial instruments in an increasingly unregulated financial market. Consequently the government's debt instruments dominated the financial markets and led to a squeeze of loanable funds with high costs of credit.

The delicate balance upon which this "administered financial revolution" rests, however, led to a reversal of incentives away from the productive sectors and physical capital accumulation in favor of short-run rentier wealth accumulation with low propensities to invest. Thus, after a decade of "structural" adjustment, Turkey entered the 1990s with slow or erratic rates of real growth and fixed investment, a worsened income distribution, and a paralyzed fiscal apparatus.

In retrospect, one can argue that the observed imbalances were not necessarily the outcomes of neglected stabilization objectives, per se. Given the socioeconomic realities of a developing economy, there were a number of inherent difficulties that have been overlooked by the pro-liberalization paradigm, such as the strengthening of the role of the state toward (re-)distribution of rents that were now mostly financial in character; and the emergence of the financial rentiers as a dominant class with low investment propensities, leading to slow capital accumulation patterns and lower growth. Thus, failing to foresee many of their policy advocations, the neo-liberal structural adjustment programs have become associated with chronic instability with erratic current account balances, fluctuating inflation rates, and very high real rates of interest.

NOTES

1. See, e.g., Marglin (1984) for a lucid exposition of the classical versus neo classical (orthodox) stance in the resolution of the distributional and growth dynamics of a capitalist economy. An historical account of the debate can also be found in Dobb (1973). See Bowles et al. (1986) for an application of the (socio-politically influenced) surplus concept in the United States economic context.

2. It has to be noted that the structure upon which this analysis rests is primarily a capitalist mode of production, with wage-labor and capitalists being the two dominant antagonist classes. For a complete portrayal of the underlying class and production relations in the Turkish society, one should also recognize the existence of semi-feudal and petty-commodity production relations coexisting within this mainly capitalistic structure. Accordingly, surplus creation is said to be originating within the primary relations of production, as a natural attribute of the system, with the working class vs. the capitalists; landless tenant (small) farmers vs. the large land-owners; and market-oriented peasantry vs. merchants/informal sector moneylenders being the major antagonistic actors of the process. The capitalist classes admit four subgroups — agricultural, industrial, commercial and financial (rentiers) capitalists as engaging surplus acquisition activities through the secondary relations of distribution. A thorough depiction of the class structure and social strata of the Turkish capitalist development can be found in Boratav (1991); a brief analysis is also provided in Boratav (1993).

3. Khan and Lippit later used this conceptualization in their exercise of environmentally adjusted surplus "which takes into account both resource depletion and environmental pollution" (1993: 125).

4. Since 1983 SIS has changed its criteria for "large" private manufacturing enterprises, defining them as those firms that employ 25 or more workers. Prior to that, large firms were those that employ 10 or more workers.

5. I must admit, however, that such calculation of labor's share of the surplus still suffers from many shortcomings, and is prone to severe errors if used for international comparisons. Despite its relative size, one has to recognize the "social security" aspect of manufacturing wages in a country that lacks unemployment insurance and labor security systems, and where a wage earner has to support an extended family structure at home. Koc (1992) calculates, for instance, that an average employee in Turkey has to support on the average 2.83 additional persons. For comparison, this number is 1.8 for Denmark, 1.9 for Finland and 2.1 for Germany. Furthermore, the total number of people who are registered as "employed" (19.6 million according to the 1990 household incomes survey) also include the 6.2 million non-wage family workers and the self-employed — or the hidden unemployed, informal sector workers. Thus, even the figure 2.83 should be taken as a minimal guess as to the extent of employee support to the extended family. In this sense, implicitly hidden within the so-called excess wage income calculations, one still has an important fund for the "necessary social costs of replenishment of the worker's family," albeit its magnitude is very hard to quantify explicitly.

6. Here an alternative route might be to tackle the problem with the use of the "opportunity cost" concept as in Danielson (1990). Following the spirit of the dual economic development theory with unlimited supplies of labor, Danielson proposes to treat the labor income in agriculture as a measure of subsistence costs. In his words, "the wage in the traditional [agricultural] sector is the opportunity cost for any modern sector worker; [and]...if the real wage in the modern sector exceeds the real wage paid in the traditional sector, this is simply interpreted in terms of modern sector labor receiving a share of the surplus" (1990: 221). Although this distinction based on sectoral wage differences is quite appealing in its practicality for giving a direct estimate of labor's share of the surplus, its application within the Turkish context is very limited due to substantial data problems. Agricultural incomes are not subject to taxation in Turkey, thus reliable data do not exist with respect to personal income in agriculture. Official estimates of rural incomes are recorded in the Household Income Survey Data, and are based on size distribution of income only, which is not proper for an analysis using the functional categories of income sources. Thus the Danielson rule of measuring excess wage incomes based on the traditional/modern sector dichotomy has limited use in this context.

7. For a thorough policy assessment of the reform package, see Senses (1983); for an economic analysis of the new commercial regime, see Baysan and Blitzer (1991). Celasun and Rodrik (1990) and the series of papers in the edited volumes of Aricanli and Rodrik (1990) provide in-depth analysis of the post-reform Turkish economic development. For a comparative evaluation of the import-substitution development experience with that of the export-led industrialization phase, see Ceyhun (1992).

8. The exchange rate concept utilized in the paper is that of the "real effective exchange rate" as reported in Selçuk (1993). It was derived using the trade-weighted official rates against the currencies of six major trading partners of Turkey, with weights being determined endogenously based on their trade shares.

9. This phrase which has repeatedly appeared in the popular press refers to those foreign funds that were transferred to Turkey, being registered as earnings from export sales while no shipment of any goods have taken place. The transfer, however, gave entitlements to the "exporter" to claim export subsidies. It is conjectured that the mechanism was used in "legalizing" the illegal (underground) foreign exchange funds accumulated during the crisis of late 1970s.

10. SPO Annual Programs, various years. Observe that the decline of the real value of incentives granted in 1990 and 1992 should mostly be attributed to the erosion caused by the accelerating inflation rate rather than a change.in the stance of the state toward entrepreneurial support.

11. See, e.g., Uygur (1987, 1993) and Anand, Chibber and van Wijnbergen (1990) who found a negative and significant real deposit rate coefficient in their private investment equation. Similar results are also obtained in Rittenberg (1991). Conway (1990) studied the effects of a composite variable (formed by adding the changes in the real exchange rate with the real interest rate) and found that the coefficient was significantly negative in the private investment equation.

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