

INTERVIEW with **Erinç Yeldan**, Professor of Economics, Bilkent University

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“... Hence the structure of capitalism, the conflict between major capital owners goes as far as redefining each other’s borders in order to secure their own capital accumulation. When the financial rent and profitability of capital have reached its limits during the last quarter of the 20th century, the system became unsustainable. There remains only one way out; “a corrective war...”

INTRODUCTION: We used to live in an era where money was no longer what it meant to be, talking about the viciousness of capitalism or the virtue of Karl Marx’s words were used to be interpreted as being “outdated”, and yet nowadays people have been talking about nothing but these concepts. The financial crisis has, once again, provided mankind the opportunity to talk about the things which were already crystal clear... Thus, at least for a few questions, we set issues of foreign exchange, stock market and inflation aside and tried to “make a sense out of what we are going through, in a historical perspective”. And for such a purpose we have chosen a Marxist economist: Prof. Erinç Yeldan. Yeldan had the chance to observe the crisis right at the spot for the last two years and his interpretations as a social scientist are:

There exist no alternative to capitalism yet...

SEVIMAY: Do you also think that “Capitalism has come to an end” is an exaggerated statement?

YELDAN: It definitely is exaggerated. Because, there has to emerge an alternative social system in order for capitalism to come to an end. Such an alternative system is not available yet. With the collapse of the Soviet system in 1990 , it is hard for us to point for the realization of the social ideas regarding the post-capitalist era, at least in the immediate short run.

SEVIMAY: But something has changed along with this crisis; what has changed?

As you know, “the end of the ideologies” has been declared in the 1990s, based on Francis Fukuyama’s thesis. Samuel Huntington has carried this thesis to a global level. According to Huntington, it is now the clash of civilizations rather than the ideologies. Clashes, contradictions would still exist but now there is only one ideology: ideology of free market and globalization. This crisis has shaken up the self-assurance of this thesis from its foundations. Because, this crisis has disproved the belief that “the market economy stabilizes and supervises itself, provides a stable growth path, a stable resource allocation and efficiency”

But the “Washington Consensus” has collapsed. So, can we speak this out: “Fukuyama’s historic err?”

I do not want to make Fukuyama the headline, but the core proposal of the “Washington Consensus”, which is “markets cure any kind of dysfunction, allocate the resources efficiently; there is no room for the state intervention in the economy; economies which ensure privatization, flexibility and unrestricted capital and keep up with globalization would function efficiently and promote growth; adapting to this civilization project would mean becoming a citizen of the civilized world” is now perceived skeptical. Simply put, it collapsed.

What did this collapse reveal?

It revealed the truth that: “the free market based capitalist ideology is nothing but an ideological project of international finance and multinational corporations.” It became so clear that, when Bearn Stearns, an investment bank in the US, was bailed out through public funds on March 14, Martin Wolf, the chief economist of Financial Times who is known for his conservative views, expressed his mixed feelings by saying: “mark the date March 14, 2008: hereafter it will be commemorated as the date when the dream of global free market capitalism deceased.”

So, this crisis did not overthrow the capitalist system but it revealed the truth about the system except for its “good times”?

True, this crisis exhibited how in fact, the capitalist system is anarchic, unstable and inclusive of crises in its nature and it opened the floor for the critique of the system. Here, I would like to quote Marx, a quote that I use a lot: “The greatest obstacle that the capitalist accumulation faces is the capital itself.” In fact, capitalism is a system of chaos and anarchy.

Because, the accumulation of capital provokes the capitalist passion in such a way that, in periods of 50-60 years or in shorter periods but this time with more profound impacts, the process of 'crisis, growth, excess production, a new crisis, a new growth, reallocation and restructuring of capital, emergence of the conditions for monopolistic production schemes, concentration of capital' goes together throughout the history of capitalism. In my view, Marx had analysed capitalism most correctly with these words and that is why today, some people are re-inventing Marx. However, Marx and Engels put forward this very nature of capitalism in The Communist Manifesto, 140 years ago.

Now the crises are more intense

OK, Marx had envisioned it, but will the history of mankind be of constant crisis in 50-60 years' period and then will the criticism of these crises continue indefinitely?

These crises will likely become chronic and more intense and eventually one day it will create its own alternative. Actually one day, the society will transit to a post-capitalist society, whether it is socialist or some other social order.

Because, there is a downward trend?

Of course the trend is downwards. It is obvious that, one day we will come to a point where capitalism is no longer self-sustainable and the system cannot reproduce itself through new interventions. But we are not there yet.

In fact, isn't it already a big accomplishment for the system to come clear of the crises and renew itself since the 1930s?

Right, besides, it has been considered as a sound phenomenon by some economists. But I am not of that view. Because, this last depression has shown us that the crises are becoming more intense and appearing in whole new circumstances.

The other day Mahfi Eđilmez from Radikal has listed: 1929 The Great Depression, 1970s the collapse of the Bretton Woods System, 1980s the bankruptcy of the US firms, 1987 the collapse of the stock market, 1997 the Asian Financial Crisis... Thus, the crises are more frequent?

Yes, we now observe that the crises are more frequent and we have exhausted all the ways out of these crises, so we need to transform our means of intervention.

Capital cannot tolerate another Keynes

So, can't the system implement the formulations that were designed during the Great Depression of 1929 and walk out of the crisis with its dignity?

No, it is not possible to implement the Keynesian theories of 1930s in today's world. Because to begin with, in Keynes' time the world was operating under the gold standard. But the gold standard is not effective since 1970. In fact, it is the most distinctive characteristic of the 20th century. Wars, walk on the moon, advancement in nuclear medicine, technological progress these are all very fascinating developments, of course. But the biggest difference regarding the 20th century is the decoupling of money from the gold standard. This phenomenon has opened up the doors to the world of financial speculation to its widest extend. Think about it, the daily trade volume of foreign exchange used to be \$110 million in Keynes' time; it is now \$1.8 billion. Such a figure can no longer be related to production of goods, real economy or trade. This figure solely originates from financial rents and speculation. So, the genie is now out of the bottle.

So what you are basically saying is that, Keynes of 1930s cannot cope with this genie. But, can this system re-invent its own Keynes? Is it possible to come out of the crisis by a new economical ideology?

If we analyze the issue from the capitalist viewpoint, where its sole rationale is profit, the system would not approve any Keynesian regulation which would control the financial system, prevent the liquidity of capital and keep the capital from earning those delightful profit rates. That is why today the neoliberal ideologists desperately make statements such as "No, there is nothing to worry about, we hit the bottom and now we can only go up, even if this is a global crisis it can be managed easily through a bailout of \$750-800 billion, as soon as the confidence is ensured the markets will sustain itself once again."

Do you think that they might be right?

No, I do not think that they are ever going to be right. I believe, along with this atmosphere of uncertainty and lack of confidence, 2009 will arrive with stagnation and recession and unemployment will be felt increasingly in each and every country. Moreover, there is a great probability that this condition may last till 2010s.

The phrase “Part-time Socialism” is either ignorance or a pun

So, as an economist, what do you think about the phrase “part-time socialism” which is put forth to describe the state interventions to overcome this period?

Of course, I disagree. Calling today’s interventions as “part-time socialism” or “transition to a socialist-capitalist mixed economy”, with all due respect, is true ignorance or an attempt to create confusion and an intellectual pun. Today’s interventions have nothing to do with socialism. In fact, this is pure capitalism. In order to save capitalism, the states always intervene the markets in favor of capital, any time and by any means.

Has there been any period of time during the capitalist era, which the state did not play any role in the economy?

No, because it is contradictory to the nature of capitalism. The truth is this: the state is always needed in the capitalist system to pave the way for capital but to limit the labor rights! Capital can move freely, but labor ought to be restricted within the borders of the nation state! Labor market has to become more flexible but the state should not interfere in health, education and social security by any means! The state always intervenes in such a system but only for the sake of capital. In fact, what we mean by “globalized state” is not a non-interventionist state, rather it is a state which does not intervene in the logic of capital but intervene in the labor market, in monetary policy and in public finance policy, fights inflation and directs trade in favor of capital. This crisis has reminded us these old facts and that’s all.

“A Corrective War” is not far

Does the active role that the state is playing in order to fix this capitalist system mean that we are now in a more repressive epoch in case of human rights and justice?

Of course, it will be reflected in the social life as well. We may face a more repressive bureaucracy and even a fascist state. Like the rise of fascism following the Great Depression of 1929, it is possible for an era of rising ethnical and religious discrimination to begin. This may happen at the global level or specifically in Turkey. And the world might not be too far from “a corrective war”. These are, of course, our interpretations of the future, in light of what we have learned from the history of capitalism during the 19th and 20th century.

What does “corrective war” mean?

It is a technical term in the economics literature. It is a contribution of Rosa Luxemburg, who is the best analyst of Imperialism as a theory, and her scholars. There are even some US economists who think that the war in Iraq is the initiative of “a corrective war”.

A possible intervention in Iran

So, are there any US economists who claim that the intervention in Iran would be a closure for this initiation?

Sure, especially lately, redefinition of the borders in the Middle East is frequently being discussed. This is very clear and Turkey is also being mentioned in this area. There are great concerns about Iraq War not being able to initiate it, so, Iran will be dragged into war somehow.

What kind of a “corrective” role do these interventions play for the sake of capital?

We have mentioned that capitalism has an anarchic characteristic. As this anarchic characteristic matures, the conflicts between the major capitalists come to a point where the capitalists need to redefine each other’s borders in order to sustain their own capital accumulation. World War I is the manifestation of this phenomenon. This is why the borders of Middle East and the Balkans have been redefined. This is why the world system of the late 20th century; where oil is being traded as a speculative commodity, food prices are sky rocketed, China and India being embodied in the capitalist ideology and provided financial rent and capital profitability has come to its saturation level, has become unsustainable. What has to be done to overcome this? An intervention which induces demand at the global level has to be done. But this cannot be tolerated by the major capitalists who claim to be “the sole ruler the world trade”. If his profitability is regulated then there exists only one way out: “a corrective war”. If not, there are too many capitalists producing too many goods and new demand could not be created because of indebtedness. So, this excess production has to be consumed either through war or by some other means.

“Third World Capitalism” would be the most brutal

Any other possibility, for example “a multi-polar world”?

New strategic alliances such as “Shangai Five” or “BRIC” (Brazil, Russia, India and China) have long been mentioned. This global crisis, may lay the ground for such alliances to turn into a “third world capitalism”.

Should we be optimistic about such a formation?

No, because this third world capitalism would be the most brutal, most repressive era in the capitalist history both for the environment and for the mankind. At least French and Scandinavian school is present in Europe, but there is no such merit in the third world.

What is the worst that can happen to us?

We have to be prepared for everything. Especially, if we think about ethnical and religious discrimination, Turkey is not far from these facts. Turkey can easily be dragged into an arena of crisis from where it's standing.

AKP (Justice and Development Party) may become more polarizer along with this crisis

AKP has been fortunate because of the global liquidity since the beginning of their term: is it over now?

True, it is over now. The AKP's first term has coincided with a conjuncture where there was extreme expansion of the global markets and loosening of the monetary rule. The net funds transferred to the developing countries from the global financial markets have risen as high as \$430 billion in 2006 from a level of \$80 billion during the Asian financial crises in 1997. On the other hand, world economies have attained excess liquidity with the inflation caused by the soaring oil prices and the decline in the interest rates. In fact, AKP has followed the macroeconomic stability programme prescribed by the IMF right after the financial crisis of 2001 and marketed Turkey as a paradise for finance, offering high returns for the outside world. While the real interest rate at the global markets was down to 3 - 4%, Turkey offered international finance capital a real interest rate which is higher than 10% and a real return of 30% on dollar denominated currencies. As a consequence, Turkey had a fast accumulation of foreign debt. Turkey's foreign debt stock has risen from a level of \$130 billion to \$260 billion. That is to say that, in 5.5 years AKP has accomplished to accumulate an amount of net foreign debt which is equal to the foreign debt accumulated during the entire history of the Republic of Turkey. There was an abundance of foreign exchange due to the hot financial capital inflow, which Turkey has never faced before. During this period, the real price of the US dollar depreciated almost by half. But, with the break out of the global crisis in 2007, Turkey's growth model, which fell into the hands of the first AKP administration following the year 2003, which is based on the \$150 billion foreign debt, cheap credits, cheap imports, and cheap foreign exchange has now come to an end.

Can an era of AKP's criticism be opened up, following this end?

It sure can.

So, do you think that we are at the doorstep of an era where more polarization and more clashes based on ethnicities and beliefs, like the discussion of "Ramadan Holiday - Festival", can no longer be perceived as a coincidence?

I deeply empathize with these concerns not as an economist per se, but also as an average citizen who is interested in the economic, social data and the political agenda. Especially as a person who was a university student during the late 1970s, I am concerned that the mentality which incited the polarization back then may also rise today and incite discrimination so that neither the system nor the government can be questioned.

The opposition should not anticipate ready-made solutions

There are these concerns, but on the other hand some people are saying "Let the crisis break out in Turkey and sweep AKP away"; what would you say to this people, as an economist?

I would say "Don't be too enthusiastic". We are now in a conjuncture that there exist no plausible alternative of AKP, not among the left nor among the center-right. There is no political alternative of AKP which would fill in the gap of mistrust caused by the corruption allegations and the peevish behavior. No one should rely on the political comfort of "This crisis will seep away AKP" opinion and expect a ready made solution.

The government either did not comprehend or they want to blanket it

So, do you think that AKP has the capability to manage this crisis? Or can the Kemal Dervis prescription still work?

If you take a look at Mr. Erdogan's speech on yesterday (Friday), you see that neither AKP administration nor their consultants or the bureaucracy have comprehended the causes of this crisis to the full extend. For example, Tayyip Erdoğan said; "Turkey would not experience a mortgage crisis as deep as the one in the US, because our housing market is very secure." His words actually killed two birds with one stone. On the one hand he reassured the markets that there would be no financial or mortgage crisis and on the other hand he promoted TOKİ (Housing Development Administration of Turkey). But the reality is that, even in Europe, this crisis does not appear as a mortgage crisis... And nobody is claiming that this crisis will appear in Turkey as a mortgage crisis. The government has either not

comprehended the true structure of this crisis yet or they are trying to blanket the truth to build up confidence in the markets.

“US is now living their Medieval Ages”

You were in US prior to and at the beginning of the crisis, you got here a month ago; what are your observations?

There was an interesting description on one of the local newspapers of the UMass Amherst: “US appears to converge more to the structure of the Medieval Europe each day.” Literally, there are emperors and seigniors, namely the people at the highest income level, on the one hand... And on the other hand there are peasants, widespread poverty, and masses of people who are alienated, disintegrated and deeply involved in debt... I observed this phenomenon in the US for the last two years. You see types of people who differ more and more from each other in their life style, clothing and shopping habits.

What kind of a social explosion would this cause? Is a social explosion possible at all?

In fact, the finance wizards have included “Average Joe” in this system in order to avoid this social explosion. On the one hand they have earned incredible financial rents and on the other hand through the inclusion of loans, credit cards, mortgage and subprime credits in the system the middle class has become sole consumers who do not have the power to revolt against the system.

“Average Joe” has become the accomplice

So, they made “Average Joe” their accomplice?

Sure, I always satirize this “Average Joe” myth: Average Joe acts as if he is a part of the system: he purchases foreign exchange, he is an active player of the stock market, “What should Average Joe do this week?”, “He should purchase Yen”, as if Average Joe is a part of this financial system, as if he is an independent citizen... However Average Joe has nothing to do within this system. He barely survives the month. But somehow he has become “indebted” through mortgage system, credit cards and consumer credits so that he can be involved in the housing market, consumer durables market and automobile market as a consumer.

Is this why the “Average Joe’s and the brokers in the US are now alliances?

True, actually this was effective on the parties to reach an agreement on the second proposal. The message was, “Yes, you may blame the greedy, desperate, corrupt speculators but if you convict them the turmoil would be so great that the whole economy will be swallowed. Therefore, we have no other option; we have to save this system.” This is such a huge and imposing blackmail, but this is capitalism.

Crisis in Turkish Economy?

So, what is the real reason behind this crisis; is it just because of the subprime US citizens’ inability to payback their housing credits, how would you summarize this crisis?

This crisis is fundamentally a phenomenon of decoupling of the frantic speculative games of the liberalized financial world from the reality of the real economy. Together with the financial liberalization, the short sighted, speculative judgment of the finance capital got ahead of the goals of industrialization. For example, James Petras and Henry Weltmeyer have calculated that, for each \$1 used in the real sector, there is a turnover volume of \$25-30 in the global financial markets. The “Tulip Period” has come to an end for the global finance network which has been detached from the world of production and real earnings, and enjoyed the day with virtual profits. This phenomenon has appeared in the US as mortgage, i.e. housing credit, whereas it is liquidity in Europe.

This crisis may hit Turkish firms

Do you think that a bailout of \$800 billion will bring an end to this crisis?

The assets in US have eroded by 20% of US national income. If there is a need for an extra \$2.5 – 3 trillion to compensate for this loss or \$800 billion is enough to get the wheels spinning, is open to question. I don’t believe that \$800 billion would be enough, but to make a calculation in the head is not easy, all in all we are talking about virtual figures.

Then, do you think that this crisis will be limited with the financial sector only or may some major productive forces also come down?

Certainly, the fear in Europe actually originates from this. My concern is that, the crisis will work through this mechanism in Turkey as well.

Why do you think so?

Because, the industrial structure of Turkey in the post-crisis period, following the year 2001 was: take advantage of the cheap foreign exchange, import cheap intermediate goods from abroad, turn them into consumer durables on the assembly line, market them in the republics of the Central Asia, Europe and Russia. That is, “import the necessary parts, produce the final good on the assembly line, and then export.” Therefore, our export has become highly depended on imports. Turkey has financed its imports, which began rising after 2003, primarily through hot money flows, then through privatization and real estate (i.e. cold money) and where the previous two were not sufficient, through direct loans, and even used the three altogether. But now, the liquidity crisis will interrupt the availability of loans to our firms and our import depended exports will deteriorate. And at the time being, the only item in our national income which carries the whole economy is our exports. Therefore, I think that this crisis will appear as a crisis in the real sector and it is already happening.

Bankruptcy of the small and medium size enterprises

Are we experiencing a crisis?

It depends on where we stand. Turkey has not been recovered from almost 30% decrease in the real earnings during the crisis of 2001. Unemployment rate used to be around 5-6% before 2001, it instantly soared up to 10-11% but has not been below 9% for the last 7 years. Therefore, we are experiencing a crisis at labor wages, small and medium size enterprises, traditional exporter sectors and unemployment. Large scale firms are not experiencing a crisis yet. But they will, as soon as they fail to provide the conditions to regenerate themselves. And of course, this will be the crisis of Turkey to the full extent.

When would you expect such thing to happen?

I think we will observe the slowing down of our exports in the figures of the third quarter. And I am concerned that this recession will last all through 2009. Of course unemployment will also rise consequently. Thus, the crisis in Turkey won't be a crisis of the financial sector directly and exclusively; but it will rather be of a prolonged recession, low or even negative growth rates and bankruptcy of the small and medium size enterprises.

How low do you think the growth rates will fall?

Unless the figures are “window-dressed”, we will more likely to face a growth rate of 1-2% for the last quarter of 2008.

We have been squandering since 2003

At which point in time we did the biggest mistake which is worrying us now?

Turkey did not handle the excess liquidity and the available capital at the global markets after 2003, as well as it should. Hot money was appealing to all of us. We squandered. We opened the door for excessive foreign debt and acted on the intuition that “We can finance our current account deficit.”

But nobody thought that we might not be able to finance it one day?

My criticism has two folds. First one is what you have mentioned. Turkey has never thought of the conditions where it cannot finance the deficit. Even the minister of state, Mehmet Simsek, has declared that “If we manage to finance this current account deficit for the next three years, anyhow, we are out of the woods.”

Are we at a point where we cannot finance it anymore?

We are approaching that point now. And what I am saying is that, we may pay the price for not financing this deficit with a crisis in the real sector.

Your second criticism?

My second criticism is; even if Turkey finances its current account deficit, it is already creating a major crisis for the mentioned sectors. Because, you import from abroad, you do not produce in Turkey, you pump unemployment into the country and make small and medium size enterprises and supplier industries to collapse... We recklessly lived the second Tulip Period. During this period we actually exhausted our national industry, disentangled horizontal and vertical linkages between the industries, destroyed agriculture, stuffed up the agricultural industries with imported goods...

The real indebted is the private sector

Have we done this during the last 3-4 years?

Yes, last 3-4 years. Therefore, even if Turkey was “not affected” by the global crisis, insisting on squandering and relying on the foreign debt to finance the current account deficit for the next 3-4 years, it would bring down the Turkish industry eventually. Think about it, in 2003 Turkey’s total foreign debt was \$130 billion. By June, 2008 our total debt is around \$285 billion. This means that Turkey has accumulated a net foreign debt of \$155 billion in a period of 5.5 years. This is such an amount that, it was not possessed even by the oil tycoons

of the Arab world in 1970s. It is such that, Turkey's national income was equal to \$150 billion in 2002.

Whose debt is this?

Only \$7 million of this debt belongs to the public, rest of the debt is accumulated by the private sector. Of this private sector debt, \$50 billion belongs to the private financial sector, remaining \$92 million is accumulated by the non-financial sector. This figure will reach \$100 million by the end of 2008.

So, you say, that is why the risk is mainly on the private sector rather than the financial sector?

Sure, since the banking sector was not the sole leading actor of the global growth phenomenon of the late 2003, even if the banks are in a short position they can handle it. Banks are also indebted but they have transferred their debts to the credit cards and households. Firms, on the other hand, are indebted directly.

It is not easy to formulate a magical prescription

What has to be done, right at this moment?

Actually, this is the most complicated question to answer. During the years 2003 - 2004, while we were saying "the current account deficit is growing, we need to take measures", we still had some alternatives. But unfortunately today, there is no magical prescription listing the things to be done. Hereafter, the following steps should be taken:

- 1- Put traditional exporting sectors in use,
- 2- Revitalize agriculture and animal husbandry,
- 3- Recover the domestic markets oriented and labor intensive sectors,
- 4- Strengthen the horizontal and vertical integration of the national industry, focus on the sectors which would decrease the level of import dependency and promote these sectors,
- 5- Instead of squandering money through financial speculation, direct savings towards national investments,
- 6- Decrease the interest rate on hot money and let the foreign exchange to fluctuate more,
- 7- Earnings of the exporter to stem from earnings from the exports and efficiency gains, rather than cheap imports...

US dollar is still the ruling money

The most eagerly anticipated answer is to the question: Has US dollar lost its power, would it be not much of a reserve currency as much as it used to be?

US dollar is not backed by any valuable good; gold, silver, platinum, what so ever. The power of the US dollar is whatever you believe it to be. Today, it is clear that there is a crisis of confidence about the US dollar being the ruling money. But there seems no other alternative currency, neither Euro, nor Yen, or some other third world capitalist currency has the power to replace US dollar. Because, Europe does not have the financial depth in its markets as much as the US financial markets have. So, this is not about having US dollar in your pocket, having confidence in it or loving it, because the market which is created by the purchasing power of the US dollar is still immense in the US. That is why, even if there is a crisis of confidence about the US dollar, it is still the ruling currency. We say that there are financial losses in the US, but we must not forget that there are financial losses in Europe as well. Thus, although it has eroded, it still has the comparative advantage.

So, does not China, Russia, Korea have a trump? Can they sell the US bills which they possess and bring an end to the ruling term of the US dollar?

This is a big trump but it makes one wonder if it is a real trump, because there is a delicate balance. For example, if China says "Let me bring the US to its heel" then, selling its goods to the US market would not be possible for China. In that case, the average growth rate of 10-12% and the process of mass production, on which the Chinese middle class rely, will be interrupted. Therefore, such political mind games, a trump like "Let us bring them to heel, everywhere turns into a bedlam and we get all the pleasure" seems extremely dangerous.

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