Organizing Debt Swap as Political 'Bricolage':
An Inquiry into Turkish and Argentinian Swaps of 2001

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Introduction

The recent credit crunch and the ensuing international economic crisis (2007-2009) have made it much clearer that state intervention for socialisation of the losses of the financial sector is critical for the revitalisation of credit markets. Such kind of intervention also forms the backbone of the "state-finance nexus" in emerging markets. In line with the aim of financial deepening, states in emerging markets not only provide legal and regulatory framework but also assume the losses of the financial sector in times of crises. The decision-makers, in other words, act as political 'bricoleurs' and employ old techniques under new forms to make the socialisation of risk appear as legitimate and necessary.

Debt swaps in Turkey and Argentina in the spring-summer of 2001 form primary examples of such bricolage. In Turkey, Treasury changed the maturity composition of debt in exchange of assuming the exchange rate risk of domestic banks. In Argentina, faced with the difficulty of debt rollover, government could achieve organizing a mega debt swap and reduced short-term obligations by accepting costly payments in the long-term. By focusing on these two moments of bricolage, this study is going to discuss intriguing relations between decision-makers and financial circles. It will be argued that political 'bricolage', which should rather be associated with decision-making dependent on context, flexibility and improvisation, becomes a frequently encountered aspect of economic management given the complexity and volatility of financial markets in the era of financialisation.

Financialisation of the State Forms the Background

States in both advanced capitalist countries and those countries which would subsequently be labelled as the "emerging markets" were active agents in the process of financialisation, i.e. the growing importance of financial markets, institutions and actors in the functioning of global and domestic economy. The state itself has been transformed through the reformulation of state-finance nexus. This restructuring, therefore has a double meaning: restructuring in line with the demands of financialised accumulation and restructuring as subjection to the contradictions arising from the reformulation of state-finance nexus.

What is called market freedom is not self-generated but constructed as done with the markets. To consume and invest necessitates a functioning framework in which the sovereign individuals take part in transaction relations. This is provided through state intervention, the intrusion of political authority or the sovereign state. States assume multiple functions for the expanded reproduction of capital as a social relation and the reproduction of the social relations of production. The particular functions, state perform in and through the process of financialisation can be outlined as follows:

- The symptoms of growing importance of the financial investment for non-financial corporations can be traced back to the *Eurodollar* market and the organization of *Eurobond* market. The collapse of the international monetary system and the ensuing crisis of global economy paved the ground for organisation of a debt economy. The debt-driven expansion of finance was characterised by increased opportunities for corporations to hedge and spread their risks in an increasingly unstable atmosphere. Leveraged buy-outs were brought about by the financial pressure upon the corporations, for asset price rises. The anticipation of the future income from the operations of corporation revealed itself in the increased importance of derivative transactions and the exotic financial products as new forms of fictitious capital formation. A strong belief in the efficiency of the financial markets reached far-flung corners of the world amidst the increased frequency of financial crises. While the states in the advanced capitalist countries were busy providing the legal-political framework in the face of growing importance of financial transactions, the states in the emerging markets were charged with the construction and deepening of the financial markets which were thought to increase the efficiency of the allocation of capital.

- The other side of the coin was the expansion of the individual borrowing and the channelling of the household income to the financial sector. A vast expansion of the consumer credit facilities was witnessed in the aftermath of the retrenchment of the welfare state in the advanced capitalist countries. Banking sector focused upon this consumer credit market and turned it into much more profitable business for the financial investors as the deprived masses in an age of consumerism were more and more subjected to the credit mechanism. The promotion of investor position for ordinary people was not a one-for-all development but rather gradually spreading phenomenon. In the emerging markets the foreign banks entered into the sector thanks to the restructuring of the sector by the state following the first and second generations of structural reforms.

- The neoliberal transformation foresaw a radical change in the structure of public expenditure. More important in our concern is that, the mechanisms of financing public deficit underwent a significant transformation since the international financial markets became more and more important in the creditor-debtor relations. The public finance was gradually removed one step away from political decision making. Issuing bonds and T-bills became the norm and the risk premium offered by these instruments were scrutinised by financial investors. Overcoming the problems of debt rollover depended on the creditworthiness of the nation-state, which was in turn based on the anticipation of the future income of the state and the ratio of the existing debt to the GDP. Under such monetary discipline the monetarist creed was internalised in the related state institutions such as Ministries of Finance, Central Banks and Treasuries.

- Last but not least, the internalisation of monetary discipline was complemented by, to use neo-Gramscian terminology, the internalisation of the exigencies of global accumulation in general. This can be best observed in the conversion of the private debt to the public debt, as seen recently in the aftermath of 2007-2009 crisis of global capitalism. States not only serve for the deepening of financial markets and provide the necessary legal-political framework for the financial operations, they also assume the losses of financial sector during the crisis in order to avoid depression and revitalise the credit markets.

I shall use the term *financialisation of the state* to refer the restructuring of the state for the fulfilment of the functions mentioned above. I do think that this restructuring is uneven as the process of financialisation itself. The struggle between social groups and classes determine the form of state intervention. *Financialisation of the state* itself is subject to struggle and cannot be seen as a predetermined tendency. It should be seen rather as a tendency promoted by the financial elites, corporations and state managers.

Well known strategy of "depoliticisation of the economic management" (Burnham, 1999) captures the third pillar, and one can argue that "the internationalisation of the state" (see Panitch, 1994; cf. Bieler and Morton, 2006) can be used to provide a better outline, if taken from a general point of view. I will suggest however, the unequivocal references surrounding the debate of internationalisation falls short of illuminating the ongoing restructuring since the concept is deliberately abstract to include every move by the social actors under the banner of the exigencies of global accumulation. In addition, as the review of various contributions imply, it presupposes a global consensus or the networks for the transmission of decisions deemed vital, whereas the financialisation process or the financialised accumulation reveals that a consensus on regulation of finance and on the recipes for avoiding finance to become a snake eating its own tail are conspicuous by their absence. It is critical to emphasize the contradictions arising from the financialisation and the state's role within that process and the outline above should be grasped, by no means, as the description of a formation external to the nation state or a terrain upon which the state respond to the external exigencies.

Policy Makers Becoming Bricoleurs

After pointing out that the tribes, characterised in popular terminology as primitive, have an extensive knowledge of plants and ecosystem, not just because of the usefulness of knowledge but rather with a motive that it might be handy in the future, the anthropologist Levi-Strauss explains that the myths are used to preserve the methods of observation and reflection so that the "savage" can refer to the previous attemtps to give a meaning to the events and employ the knowledge to fulfil the task at hand. Mythical thought is, in that sense, "intellectual bricolage" according to Levi-Strauss (1966). The bricoleur differs from scientist or engineer in that he/she opts for the use of remnants of events to overcome the apparent obstacles, but does not search for going beyond the given situation.

> The ‘bricoleur’ is adept at performing a large number of diverse tasks; but, unlike the engineers, he does not subordinate each of them to the availability of raw materials and tools conceived and procured for the purpose of the project. His universe of instruments is closed and the rules of his game are always to make do with ‘whatever is at hand’, that is say with a set of tools and materials which is always finite and is also heterogenous because what it contains bears no relation to the current project, or indeed to any particular project but is the contingent result of all the occasions there have been to renew or enrich the stock or to maintain it with the remains of previous constructions or destructions. (ibid., p.11)

Since the bricoleur uses the remnants or debris of events, the elements used are “pre-constrained”, i.e. the previous uses and the modifications of the tools constrain the action. For Levi-Strauss then, “…the engineer is always trying to make his way out of and go beyond the constraints imposed by a particular state of civilisation while the ‘bricoleur’ by inclination or necessity always remains within them” (ibid., p. 13).

The metaphor has its weaknesses, but it is worth pursuing the reflections since most of contemporary “scientific” endeavour can be seen as “bricolage” rather than going beyond the constraints by way of using the previous methods of observation and reflection in addition to the new ones. Moreover, bricolage can be associated with the activities of actors in the fronts of political and economic spheres as they create new frameworks and structures by the use of the constructions and destructions of previous events. Indeed, the term has been used in the studies of finance to refer to the improvisation in financial markets either as theoretically framed developments (Mackenzie, 2003) or as improvisations. In a recent study Engelen et. al. (2010) has used ‘bricolage’ with explicit reference to Levi-Strauss and his demarcation between bricolage and scientific activity. In their understanding, bricolage can be used to understand the nature of financial innovation which tries to escape the rationalistic schemas and as a result paves the ground for spread of innovations producing fragility and a circle in which financial activity yields more financial activity. Bricoleur translates the possibilities within a conjuncture into profitable positions by way of using what is at hand (ibid.).

To stick with the metaphor, one can claim that it is impossible to suggest that financial actors behave like bricoleurs while the policy makers and regulatory authorities, who are supposed to deal with the constructions and destructions of this bricolage activity, standstill. The period of financialisation pushes the policy makers towards the position of bricoleurs. They have to work for revitalisation of the credit markets, make the state assume the losses of the financial sector and present this activity as necessary and legitimate at one and the same time. While doing so, they try to translate the possibilities within the conjuncture into politically strengthening positions by using what is at hand. Although their tools for calculation may be the products of "economic science", their activity remains one of a bricoleur since they accept the constraints imposed by financialisation in general and financialisation of the state in particular. Political intervention yields more political intervention in this context. The activity pursued by policy makers and financial authorities as bricoleurs may lead to a long-chain of events undermining the neoliberal policy orientation or be presented as a reform attempt in the permanent restructuring of the state for promoting growth and introducing viable regulatory framework. The main point is that the regulatory activity in general, in our case, the organization of a debt swap in particular always remains within the constraints imposed by financialisation.

Turkish Swap: Treasury Assuming Risks

As it is well known state assumed the losses of financial sector and intervened for revitalisation of the credit markets during the 2007-2009 international financial crisis (see Visser and Kalb, 2010). In Turkish context, bailing out banks, injection of funds for rescue and providing stimulus through various means have a history for more than a decade.[1] In Turkey, with regards to debt management and the field of public finance, strategies of "depoliticisation" and the process of internationalisation of the state were seen at one and the same time in the late 1990s and the 2000s.

One of the dimensions for depoliticisation was first limitation in 1997 and then the abolishment in 2002 of the use of Central Bank (CB) resources to finance public expenditure. By these changes, the long shift which started with regular debt auctions in 1985 has been completed. Given the conditions of implicit inflation targeting under the first Justice and Development Party (JDP) rule, monetarisation of public debt was no longer an option for monetary authorities. The second set of changes was related to the regulation of banking sector. Banking Regulation and Supervision Agency (BRSA) as a supervisory body, founded

[1] The funds injected to banks taken over by Savings Deposit and Insurance Fund reached to 27.8 billion USD in 2004 (SPO cited in Bakır and Öniş, 2010). As mentioned before, Ali Babacan, the minister in charge of economics since May 2009, claimed in a recent critique of then general director of İş Bank, that the cost to Treasury of restructuring banking sector is estimated to be around 380 billion TL (240 billion USD) if the interest payment of debt is added. Bailing-out banks and socialisation of the losses of the banking sector in Turkey provides a model case of bank rescues in emerging markets (Marois, 2009).

in 1999 and rendered fully operational in August 2000, proved functional in presenting regulatory efforts and decision making with regards to the banking sector as non-political and compulsory reforms pursued by technical experts. The foundation of BRSA, can be seen, in that context, as the "process of placing at one remove the political character of decision making" (Burnham 1999: 47).

"Depoliticisation" was necessary but not sufficient for the restructuring of the relations between state and financial sector. It was of utmost importance to impose a policy of primary budget surplus, among other fields of reform associated with post-Washington consensus. The internalisation of monetary discipline, in that, sense brought about an austerity state, parsimonious in terms of spending and munificent in terms of proving its faith in neoliberal dogmas. Internalisation of discipline is accompanied by "internationalisation of the state", in the sense of the search and implementation of international rules and regulations in banking sector and the field of debt management. Although a consensus by international financial circles on regulation of international financial markets is conspicuous by its absence, international standards of banking and debt management became reference points for Treasury, CB and BRSA in the aftermath of financial liberalisation and particularly after the 2001 crisis.[2]

It seems viable to use the concepts of depoliticisation and internationalisation with a cautious interpretation and an attempt to portray an adequate picture of the reformulation of state-finance nexus in Turkey in the aftermath of financial liberalisation. Socialisation of debt and risk in this period is based on the firm commitment of Treasury to the well-being of financial sector. *Financialisation of the state* in Turkey presents itself most explicitly in the identification of public interest with the interest of the financial sector. 2001 debt swap provides a lucid example of the financialisation of the state and the ways policy makers turn into bricoleurs.

[2] While Treasury searched for variegating debt instruments (see Gürün et. al, 2008) and taking into account the demands of the financial sector for an organized and deepened public debt market (see UT, 2008b), the independence of CB and definition of its duty as providing price stability were presented as the requirements of modern day central banking. BRSA, on the other hand, analysed the sector and searched for implementation of Basel Standards. From the auditing of offshore banking (international subsidiaries and branches of TBS) by BRSA (see Tükel et. al., 2006: 289) to the takeover of 17 banks that do not comply with the regulatory framework by SDIF between 1999 and 2003, can be seen as the ramifications of "internationalisation", not in the sense of direct transmission of the international regulations to Turkish context, but organizing the sector in line with the international standards and practices to a great extent.

Turkey has experienced the severest crisis in her financial history in 2000-2001. The GDP declined 7,5 % and currency depreciated 115,3 % against USD. Faced with serious rollover problems Treasury had to organise a swap. First and gargantuan in its size and operational cost in Turkish history, 2001 swap forms the prime example. It was designed to help banks balance their FX assets-liabilities ratio. "June 15 swap" was presented as a win-win situation and it was emphasized that the voluntary nature of the swap revealed its market flavour. It is known, however, that the Treasury and representatives of the banking sector met frequently before the swap for designing the quality of debt papers to be exchanged. To help banks close their short positions, Treasury offered FX-denominated bonds in exchange of TL-denominated bills. Treasury also put TL-denominated bonds in her bond-basket and the attempt to minimise the exchange rate risk taken by Treasury faced with a disdain from the banking sector. Two significant forms of intervention during the organization of swap can be stated as follows: First one is that Treasury determined prices of the bills and bonds that will be bought, more than their secondary market price and guaranteed a minimum income by declaring a maximum price for non-competitive bids for 3 year maturity bonds. Secondly, Treasury determined an exchange rate that will be implemented for the newly issued instruments, which was below the market price and Central Bank did nothing for rapid depreciation (more than 6 per cent) of Turkish Lira so that the banks joining the swap operation would further benefit from getting the FX-denominated bonds. By the help of these operations, Treasury assumed exchange rate risk, but also became more vulnerable to interest rate hikes because of floating interest rate TL bonds.[3]

Argentinian *Mega Canje*: Maturity Extension Followed by Crash

The vicious circle in which the Argentina was placed in the second half of the 1990s has a lot to do with the adjustment policies and the economic orientation of the country. Hard currency regime of Argentina led initial success to be followed by rapid appreciation in the second half of the 1990s, of the currency because of its peg to USD. This brought about soaring current account deficit, which was accompanied by a prolonged recession. The stand-by agreements

[3] See the following columns and newspaper pieces: Takasta bazı teknik sorunlar var (2001, June 2), *Hürriyet*, retrieved on August 13, 2009 from http://webarsiv.hurriyet.com.tr/2001/06/02/302423.asp; Takasta işlem tamam (2001, June 12), *Radikal*; Korcan, U. (2001, June 14) "Takasta cazip fiyat", *Radikal*; Hazineden takasa cazip teklif (2001, June 15), *Radikal*; Ekonomiye takas nefesi (2001, June 18), *Hürriyet*, retrieved on August 13, 2009 from http://webarsiv.hurriyet.com.tr/2001/06/18/308508.asp; Gürses, U. (2001, June 19), "Takas sonrası", *Radikal*; Sak, G. (2001, June 21), "Bankalar ve IMF'ye dair", *Radikal*.

was characterised by deals between IMF and the policy makers in which IMF offered generous amounts of loans in return of strict fiscal adjustment.

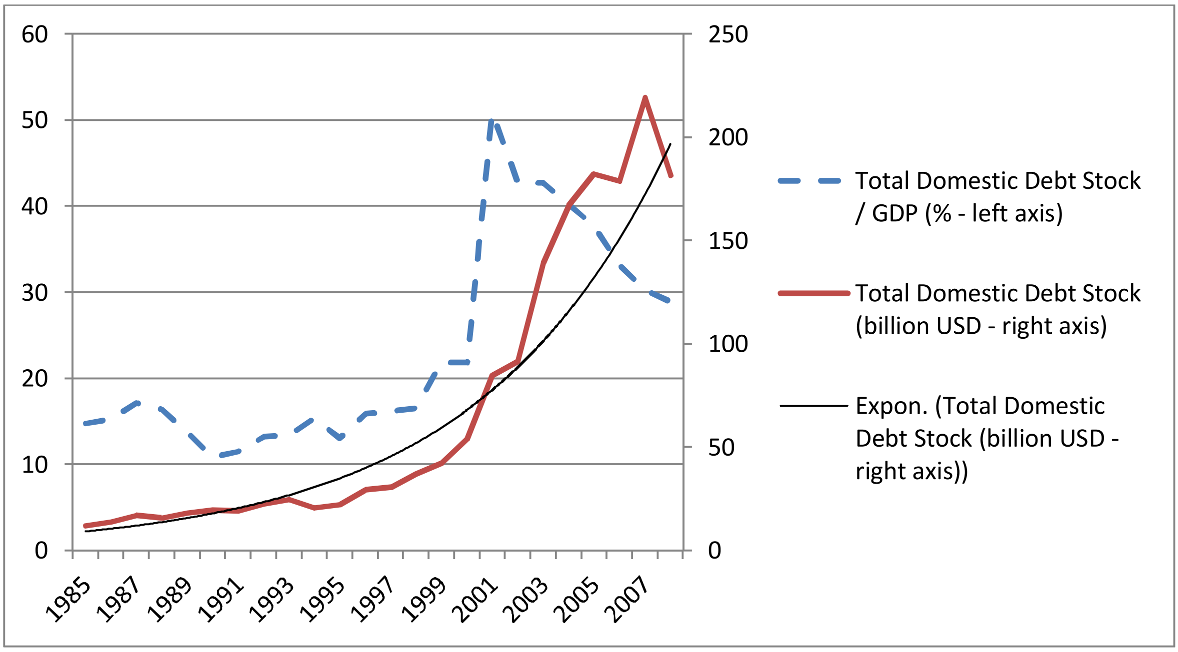
Since the costs for rolling over debt increased thanks to the emerging market crises of the late 1990s, Argentina faced a situation in which the country was dragged into a no-way-out situation. Argentina became “one of the most indebted emerging countries in the international bond capital markets with nearly half of its total indebtedness being in bonds” (Santiso, 2003: 178). After the sovereign debt default of December 2001, the currency depreciated rapidly and lost two third of its value against dollar (Dhillon et.al., 2006). Before the crash, however, the attempt by financial authorities to organize a swap in mid-2001 should be underlined.

It was thought that the exchange of bonds with short and medium maturities with long-term ones will give a financial relief to the country. 20 billion USD worth of paper was expected to be a part of the swap, but the participation turned out much bigger (29,5 billion USD). It was thought that such kind of maturity change will minimise the fear of default, since 4,5 billion USD payment was due within the same year. *Mega Canje*, however had two major flaws, which fits well into our picture of the state-finance nexus: First one is that the interest rate on government papers was not decreased significantly. As Garcia (2001) underlined, major banks insisted on 12 % interest rate, which was not higher thanks to *Bancó Nacion* that bought 30 % of these valuable papers. The high premium to be paid in the future years became more explicit after the 9/11 events and the declining interest rates (Lischinsky, 2003: 95-96). Another major flaw was that particular banks took place within the swap as intermediary agents in the transactions and collected substantial amount of commission fees. This has produced a financial burden which appeared as the produce of intimate relations between major banks and the policy makers within the financial arm of the state, i.e. ministry of economics (ibid.).

Debt Accumulaton: To be Continued

It is for sure that the regulatory attempts in the aftermath of the 2001 crisis in conjunction with the capital inflows into Turkey boosting GDP growth helped the reduction of the ratio of domestic debt stock to GDP. As the figure below implies the ratio of total domestic debt stock to GDP has declined in the aftermath of 2001 crisis. Nevertheless the rise in the amount of debt stock remains considerable. It has reached from 84,9 billion USD in the crisis year 2001 to 219,2 billion USD in 2007 (Treasury Statistics, 2009). The exponential line shows explicitly that the growth of total debt stock continues to form a threat to the economy.

Figure 1: Domestic Debt Stock in Turkey in the post-1980 period



Source: Treasury

In terms of the sustainability of public debt in Turkey, it should be re-emphasized that despite the declining real interest rate on GDI, the imposition of targets for primary budget surplus, and the apparent decrease in the ratio of total domestic debt stock to GDP in the 2000s, the accumulation of debt proves, Turkey is far from overcoming the problem of public debt. Ponzi scheme of the 1990s has been left behind; however, the sustainability of public debt remains as a major concern. The aim of the JDP governments and the Treasury has been, it seems viable to claim, to overcome the problems that allegedly stand in front of rolling over debt. Rather than minimizing the domestic debt stock, the deepening of the market is thought to contribute to the effective management of public debt.

Mega Canje of Argentina, on the other hand was followed by a bank run in autumn and the government's reaction to impose a ceiling of 1000 USD a month on bank drawals, which nailed the coffin of informal service economy and contributed to riots and looting in the last months of 2001 (Bambacı et. al., 2002). Unemployment reached 23 % and almost a quarter of the real wages shrank in 2002 (Swampa, 2008). Only after the reordering of political life and the Buenos Aires swap of 2005 (see Dhillon et.al., 2006) Argentinian crisis was left behind.

Although the ratio of total public debt to GDP seems to revolve around 45%[4], it should be noted that this signifies the continuous accumulation of public debt, similar to the case of Turkey and many other emerging markets.

Concluding Remarks

Depoliticisation of debt management and the internalisation of monetary discipline within the state apparatus are major points to be underlined in terms of economic policy making in the neoliberal era. Despite the apparent rational decision making by economic policy makers, the reformulation of state-finance nexus in the era of financialisation constrains the policy makers in such a way that the policy makers turn into bricoleurs.

An analysis of Turkish and Argentinian swaps, both of which were organised in the same month in 2001, reveals that the explicit aim was to provide a relief to the public sector by extending the maturity. However, swaps turned out as tools for transfer of resources to the financial sector and made the financial arms of the state more vulnerable against the volatility of the markets. Further political intervention and legal regulations to give relief to financial markets in Turkey, more swaps and a prolonged political chaos in Argentina followed the swaps of June 2001.

Although the mechanisms through which the losses of financial sector is socialised, or the governments are subordinated to the interests of major banks and financial actors show variations across emerging markets, it can be claimed that neoliberalism serves as a powerful myth that conditions the way of thinking in the field of policy design. When faced with the debt trap within a financially liberalised economy, the response is to find a way for the revitalisation of credit markets and deferral of further crisis. The short-term outlook of government members criticised by critical scholars as well as mainstream economists derives from the structural ground of financialisation and neoliberalism.

[4] See http://www.mecon.gov.ar/finanzas/sfinan/documentos/informe_deuda_publica_31-12-10.pdf.

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