REGULATION THEORY AND ECONOMIC CRISES:
THE CASES OF GREECE AND TURKEY

A THESIS SUBMITTED TO
THE GRADUATE SCHOOL OF SOCIAL SCIENCES
OF
MIDDLE EAST TECHNICAL UNIVERSITY

BY

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IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR
THE DEGREE OF MASTER OF SCIENCE
IN
THE DEPARTMENT OF INTERNATIONAL RELATIONS

OCTOBER 2012

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ABSTRACT

REGULATION THEORY AND ECONOMIC CRISES: THE CASES OF GREECE AND TURKEY

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Masters, Department of International Relations
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October 2012, 142 pages

This thesis analyzes the economic crises of recent years through the lens of the Regulation Theory. It focuses on the Greek Crisis of 2009 and the Turkish Financial Crises of 2000 and 2001. Furthermore it also analyzes the crisis in the United States to give a better grounding for the current crises. The thesis tries to answer the questions of whether or not Regulation Theory proves to be a sufficient tool for analyzing these crises and whether or not these fit the definition of crisis that the Regulation Theory puts forward. It is argued that Regulation Theory explains to a great extent both the causes and the structure of the crises.

Keywords: Regulation Theory, Economic Crisis, Greek Government Debt Crisis, United States Subprime Mortgage Crisis, Turkish Financial Crises of 2000-2001

ÖZ

DÜZENLEME TEORİSİ VE EKONOMİK KRİZLER:
YUNANİSTAN VE TÜRKİYE ÖRNEKLERİ

Üçtuğ, Çağan
Yüksek Lisans, Uluslararası İlişkiler Bölümü
Tez Yöneticisi : Doç. Dr. Faruk Yalvaç

Ekim 2012, 142 sayfa

Bu tez dünyada son yıllarda meydana gelen ekonomik krizleri Düzenleme Teorisinin bakış açısından incelemektedir. Tez, öncelikle 2009 Yunan Krizine ve 2000-2001 Türkiye Finansal Krizlerine odaklanmaktadır. Ayrıca, söz konusu krizlerin çıkış noktasını daha iyi kavrayabilmek amacıyla Amerika Birleşik Devletleri'nin yaşadığı kriz de tez kapsamında incelenmiştir. Tez kapsamında, Düzenleme Teorisinin Türk ve Yunan krizlerini çözümlemek için yeterli bir analitik araç olup olmadığı ve yine bu krizlerin Düzenleme Teorisinin ileri sürdüğü kriz tanımlarına uyup uymadığı soruları yanıtlanmaya çalışılmıştır. Sonuç itibariyle Düzenleme Teorisinin tezde ele alınan krizlerin oluşumu ve yapılarını büyük ölçüde açıklayabildiği ileri sürülmektedir.

Anahtar Kelimeler: Düzenleme Teorisi, Ekonomiz Kriz, Yunanistan Devlet Borcu Krizi, Birleşik Devletler Yüksek Risk Mortgage Krizi, 2000-2001 Turkiye Finansal Krizleri

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CHAPTER 1

INTRODUCTION

The thought that economic crises in capitalism are inevitable is a very common opinion that is shared by most Marxist analyses. Recent developments in the world seem to prove this analysis correct, as country after country has experienced economic crises in various degrees, some crippling, while others only posing small shocks to the system. Certainly the crises that have been seen following the 2008 American Subprime Mortgage Crisis are in the former group. The aim of this thesis is to argue that Regulation Theory provides valid arguments in explaining these crises.

The crisis in the United States arose from a very simple economic fact, that the housing market is prone to crises, due to fundamental supply and demand factors. However, increased globalization, trade and the interconnectedness of financial systems led this crisis to have far reaching consequences than it would have been expected at the beginning. Indeed, four years have passed since the scope of the crisis began to be apparent, and the world is still not free from its clutches. Time will tell whether or not this crisis will prove to be as significant as the Great Depression, and of course the overwhelming hope would be against such a possibility. But even if this eventuality does not come to pass, the fact of the matter is that this crisis has still managed to bankrupt one country, push another one to the absolute edge and almost destroy a process of regional unity that has been ongoing for half a century.

Of course this crisis had its roots in earlier developments within the world, predominantly with regards to the rise of neo-liberalism. Starting from the 1970s and gaining speed following what Duménil and other writers call the “1979 coup”,

neo-liberalism can be seen as the cause of some, if not most, of the economic troubles that the world has foreseen in the last few decades. It is within this period of history that the crisis which this thesis will focus on has occurred (Duménil & Lévy, Costs and Benefits of Neoliberalism: A Class Analysis, 2010).

Furthermore, the neo-liberal system is characterized by a relationship between the center and the periphery, a relationship that is thought to permeate through different forms of capitalism, through mainly imperialist patterns. It is within this sphere that the crises of the modern day can be analyzed, as, due to being the center of this system, the crisis within the United States has also affected the periphery, in some cases much more strongly (Duménil & Lévy, Costs and Benefits of Neoliberalism: A Class Analysis, 2010). As a result, an analysis of the recent developments in the world also has to keep this connection in mind.

Thus, in the course of this thesis, the analysis will focus on the Greek and Turkish economic crises as examples of two crises within the periphery where Regulation Theory is most applicable. Regulation Theory not only provides the necessary wide scope for an analysis of this caliber, but through its deliberations on the nature of economic crises gives an analysis an additional value. Primarily, the question of whether or not the crises in Greece in 2009 and onwards and Turkey in 2000-2001 fit a Regulation Theory analysis will be answered. This will be done through inspecting the specifics of both of these countries, drawing largely from the Regulation Theory concepts of regime of accumulation and mode of regulation. The expected result is that in both of these cases the crises arose from fundamental issues within structures that these two concepts are composed of, and the relation of these structures to one another, and that in the Turkish case with regards to 2008, it was the improvement and development of new regulation in these areas that prevented the country from experiencing another devastating crisis. In this light it is expected that the neo-liberal system was a patch that was applied on top of existing issues in both of these countries and this patch simply delayed their poor

economic models from collapsing sooner, thus making the eventual crisis stronger, due to not accounting for the structural deficiencies within their systems.

In addition to this point, the thesis will also investigate whether or not the Greek and Turkish crises fit the Regulation Theory view of a "structural crisis". Regulation Theory views structural crises as crises that arise due to fundamental defects within the system from which recovery cannot be possible without outside intervention and significant aid. The goal of the thesis is to prove that both the Greek and Turkish cases fit this definition.

In this framework, the first chapter will include an analysis of Regulation Theory, starting from its beginnings in France in 1970s. The main Regulation Theory arguments of the impossibility to separate the economic section of society from the social sections, as well as its predominant concepts such as the mode of regulation, regime of accumulation and models of development will be investigated. In addition, the thesis shall also analyze institutional forms and how they are perceived by Regulation Theory, the views of the theory on the nature of crises as well as the different types of crisis that the theory foresees.

The following chapter will give an introduction to the economic crises of recent years by using the origin of the crisis, the United States, and giving an analysis of the existing neo-liberal system to explain why the crisis in the United States has spread so far and wide. This chapter will also aim to introduce key financial and economic concepts that have helped create the crisis within the United States and to spread it globally. To aid in this effort, a brief historical perspective will be given regarding the United States' crisis and the recent trajectory of the neo-liberal system, as any analysis of what has transpired in Greece or Turkey after 2008 cannot be made by ignoring the events that occurred within the last few years and even decades. This section will be followed by an analysis of key factors in the United States crisis, including financial elements such as the concept of securitization, credit ratings agencies and the mortgage system.

Lack of regulation or de-regulation in several sections of the economy will also be investigated, to better investigate the causes of the crisis.

After these two introductory chapters the thesis will investigate the main crisis of focus, the Greek crisis, also including a brief focus of Greece's place as a peripheral country both in the neo-liberal system and within the European Union integration process. The Greek crisis is notable due to the sprawling nature of it, as the crisis has not only brought the entire Greek system to a halt but has also raised the possibility of the destruction of the European Union due to its results. To examine the particulars of the Greek crisis in a better light, an in-depth analysis of the economic history of Greece will be given, focusing primarily on developments that have led to the crisis directly such as the rise of populist policies after the alienation of certain sections of the society as a result of the military junta or the lack of sufficient industrialization in the economy after the Second World War. This line of thought will then feed into an analysis of the events from 2008 and onwards within Greece, starting from the PASOK government unveiling the fact that the deficits were larger than expected and continuing by following the austerity programs and bailouts that the country has received from the European Union. Particular care will be given to the reaction of the public in Greece to these developments as well as international reaction of the markets, to paint a complete picture of the situation in Greece to better support the analysis.

After the historical perspective in Greece is firmly settled, the thesis will then focus on a theoretical analysis, by using Regulation Theory views on the particulars of a mode of regulation and regime of accumulation and identifying fault lines within these sections of society in Greece to test whether or not the argument that the crisis arose from within the mode of regulation and the regime of accumulation can be made sufficiently. For this purpose several important areas will be analyzed, starting with labor relations within the society, through investigating the wage-labor nexus as well as looking at how the labor interacts with the means of production. Within this section the pension system in Greece will also be analyzed in regards to

the often repeated statements regarding the working hours of the Greek workforce, as well as the characteristics of the Greek labor such as which sector of the economy the majority are employed in and unionization. Further on, a brief look will be given to Greece's social structure, in how certain classes are created and sustained, and its immigration problem, as both of these areas have been detrimental to the economy and have fed into the systemic crisis in Greece. While immigration has helped to create an even bigger black economy in the country in addition to rising crime and increasing racism, the differences amongst the work force in particular has been significant.

The following sections will be related to international relations and competition between different types of capital, mainly argued through national and international capital. This section is vital in the Greek example, as the crisis cannot be explained without the effects of the American crisis on the world economy or without the involvement of the European Union in the economy of the country following the crisis. In addition, special attention will be given to investigate the Greek-German relations, a hot topic in Greece in recent months, to analyze the allegations of Germany benefiting from the larger crisis in Europe. The next section will also continue this analysis, partially, as monetary and credit relationships within Greece will be investigated, largely through the effects of the currency change on the Greek economy. In addition, the relationship between the Greek system and credit ratings agencies will be explained, as well as the alleged fact that Greece opened up to the financial markets earlier than it should have in the 1980s, before it had the chance to develop a strong enough industry.

Finally, the nature of state interventions into the economy and the lack of regulation in the system will be investigated. It is without doubt that these two areas are the main causes of the problems that Greece has faced in the last few years. The topic that will receive the most focus in this section will be the rampant corruption in the system, both in the public and private sectors. In addition, populist policies of successive Greek governments of the last few decades will be analyzed,

as this is one of the primary causes for the large deficit that the country has run. Also of importance will be the rampant tax evasion in the system, related closely to both government policy and corruption within the society. In the closing section of the Greek chapter, after the analysis of the country's system is finalized, the thesis will investigate the claim that the crisis which Greece experienced constitutes a structural crisis under Regulation Theory, by testing to see if the prerequisites for a structural crisis exist in the Greek system.

After the Greek crisis is inspected in greater detail the thesis will analyze the Turkish experience. The main assumption within this chapter is that while Turkey did not feel the negative effects that arose from the Global Financial Crisis, this was due to the fact that Turkey had put in sufficient regulations and had altered its system in a substantial way following the crises in 2000 and 2001. Thus, in this chapter, the analysis will mainly rest on the experiences in Turkey during the 2000 and 2001 crises, the two main crises that the country has experienced after the neo-liberalization of its economy during the 1980s. Once again, through the neo-liberalization of the Turkish system, a brief focus will be given to analyze Turkey as a peripheral country in the neo-liberal system, drawing upon comparisons of its crisis to other crises within countries of a similar background adapting to the neo-liberal program around the same historic period, such as the developments in Argentina. Furthermore, the thesis will look at the historical perspective of the elements in Turkey that led up to the crises and how the crises themselves occurred after the IMF plan started in 1999. The fundamentals of the economy that led to the situation will be analyzed, essentially starting from the 1980s, and a mandatory closer look will be given to the period between 1999 and 2001.

Once the particulars of the 2000-2001 crises are given, the thesis will look into important developments during and after these crises that led to the Turkish economy stabilizing quickly than it perhaps would have been expected, including the influence of the European Union, the rising international importance of Turkey in a post September 11 world and the victory of the Justice and Development Party

in the elections. Following this analysis the thesis will briefly examine the experiences in the Turkish economy regarding the 2008 crisis to prove the point that the country did indeed survive the period relatively well, even though the economy felt its effects.

Following these chapters, in a manner that very much mimics the Greek section, the thesis will look at the specifics of the Turkish experience and compare and contrast it with the Greek experience. This will be done, once again, through a Regulation Theory perspective as the system in Turkey is examined in a similar fashion. The analysis will cover the time period before and during the 2000 and 2001 crises, with more in-depth looks to the changes that occurred in the system after these two crises. As in the Greek section, the question of whether or not the Turkish crises arose from systemic and structural issues within the mode of regulation and regime of accumulation will be answered. In the last section within the Turkish chapter, the existence of a structural crisis in the Turkish system will be investigated to bring the analysis to a full circle, mirroring the Greek analysis through a different perspective.

Finally, in the conclusion chapter an overall look will be given to the contents of the thesis and the starting questions of the thesis will be answered once again to see if historical facts and economic data prove, in both cases, whether or not a Regulation Theory point of view can be used to analyze the crises the world has experienced recently, and whether or not the Turkish and Greek crises constitute structural crises that cannot be overcome without outside intervention towards the system due to the system being unable to reproduce itself internally. In addition, the important points of the analysis will be repeated in a succinct manner to better clarify how the answers to these two questions have arisen.

CHAPTER 2

THEORETICAL BACKGROUND

The Regulation School, (sometimes known as the Regulation Approach or the Theory of Regulation, amongst other names), first came into light in the 1970's, in France, predominantly through the writings of Robert Boyer, Alain Lipietz and Michel Aglietta. Aglietta's 1976 book, *A Theory of Capitalist Regulation: the US Experience* concerned itself with the development of capitalism in the United States, fundamentally in the sense of capital accumulation. Nonetheless, it must be mentioned that throughout the years there has been many other schools of Regulation Theory alongside those that originated in Paris and Grenoble in France, such as those that arose in Amsterdam, West Germany and the United States. For the purposes of this thesis, Regulation Theory will be held at its most familiar and widespread form as can be seen in the writings of Robert Boyer (Boyer, Technical Change and the Theory of "Regulation", 1987), Michel Aglietta (Aglietta, 1979) and Alain Lipietz (Lipietz, 1987) (who all belong to the "Parisian" school of Regulation) as well as Bob Jessop, all of whom it can be said have over the years, used a form of Regulation Theory that combines certain features from the Grenoble school and the Parisian school (Jessop, 1990).

It is important to note early on that the word "regulation" that Regulation Theory uses is not in fact regulation as it is known of in the English sense of the word. Instead, "regulation" involves "…the analysis of the way in which transformations of social relations create new economic and non-economic forms, organized in structures that reproduce a determining structure, the mode of production" (James, 2002, p.6).

Again of importance in relation to the name of the approach is the fundamental but nonetheless surprising notion shared by many regulationists that Regulation Theory is not, in fact, a theory but more of a research program or, according to some, simply the regulation approach (Lipietz, 1987). This idea arises from the fact that regulationists did not want their "theory" to be a closed, rigid approach but instead one that would continue to evolve and change depending on the problem analyzed by the researcher (Jessop, 1990).

The Regulation Theory, as is the case with many political or economic theories, owed much to the period of time it was born in. With the exception of Robert Boyer, the main contributors to Regulation Theory were all in one form or other Marxists who were involved in local and country-level politics in France. Thus Regulation Theory would be shaped by the pressures of the Maoist – Stalinist thought that its creators tried to break free from, after they had dominated much of the Marxist discourse in France in the past years, as well as the brief rise of the Left in France, which suddenly propelled them from sideline critics to political actors (Husson, 2007).

Also of importance is the fact that Regulation Theory arose in a period of crisis. As can be seen in most of the early Regulation Theory works, an approach which Lipietz himself has criticized in his writings, regulationists concerned themselves with a criticism of Fordism and discussions related to the new Post-Fordist system that was occurring right before their eyes. This is due to the fact that the time in which Regulation Theory gained prominence, 1970s, was also the time when Fordism was in crisis and was in the process of being replaced by a more neo-liberal framework, as well as the emergence of the 1970s recession that arose due to the oil crisis and the fall of the Bretton Woods system, which would affect most of the Western World.

Historical context aside however, Regulation Theory, as has been said, was firmly rooted in Marxist thought. However, it also incorporated new elements of

thought within it, such as institutionalism and Keynesian macro-economics (Natalia, 2010). In regards to institutionalism, Regulation Theory focuses on the “importance of the institutional forms understood as codifications which tend to stabilize the patterns of individual and collective action”, while from macroeconomic theory, it gives great value towards “problems derived on behalf of the demand, to the economic cycles and structural unemployment” (Natalia, 2010, p.4).

Regulation Theory’s most important conundrum is that of capitalism’s unexpected resilience in the face of its many crises. Regulation Theory also has a noteworthy level of analysis dedicated to crises with regards to how they occur and the various types of crises that can be seen, which shall be inspected later on in the chapter, however, for now, it is enough to say that this question forms the heart of Regulation Theory and its where its most basic assumptions and fundamental tenets rise from.

Regulation Theory rejects certain main assumptions of neoclassical economics, namely, that free market policies will achieve supply and demand equilibrium and that exchange relations are driven entirely by rational, profit seeking individuals who have perfect knowledge of the developments within the system and the workings of the market. (Aglietta, 1976). While they do admit that market forces have a role in expanding capitalism, they also give importance to other forces, such as social relations (Jessop, 2002). Just as vitally, Regulation Theory denies that there is a sphere of economy which is “socially disembedded” and is “marked by a tendency toward general equilibrium” (Jessop, 1997, p.8). In addition, Regulation Theory also denies that this sphere can be adequately analyzed in terms of norms that derive from an abstract world defined by perfect markets (Lipietz, 1987).

Taking all of this into consideration, it can be said that regulationists try to focus on concrete social relations in their analysis, rather than abstract, imagined and, conversely, perfect markets. Regulation Theory incorporates, in its analysis of

the regime of accumulation and the mode of regulation, a variety of other elements within economic analysis, such as the inherent problems in labor processes, technological progress, changing institutions in various different countries and in different places, and the passage of time, in that they deny the neo-classical view that individuals have perfect knowledge of the future (Jessop, 1997). In this aspect regulationists can be said to borrow from the works of Karl Polanyi, such that they borrow the idea that it is impossible to separate the purely economic and the purely social (Boyer, 1990).

It can also be said that Regulation Theory criticizes Marxism along similar lines as it does to neo-classical economics, even though it is also possible to, as has been mentioned before in this very chapter, account that to a certain disconnection amongst French Marxists in the 1970s due to external influences, namely Maoist developments, which led them to miss developments occurring in the Anglo-Saxon world in regards to Marxist thought (Husson, 2007). Nonetheless, one can see that both Marxism and neo-classical economics tend to be criticized as having "insufficient links between theory and empirical analysis" (Boyer & Saillard, 2002, p.3). In this light, as Bertrand suggests, Regulation Theory prides itself in its ability to:

> return to empirical assessment, even when difficult and invariably unsatisfying given the precise origin of the statistics used, introducing the possibility of refuting the initial theoretical framework, however satisfying it might be from a strictly logical standpoint (quoted in Husson, 2007, p.4).

All things said this statement brings Regulation Theory back to the abovementioned main question, in that the theory suggests this is the reason why neo-classical economics have failed to account for how "capitalism improbably overcomes its internal contradictions and inherent structural instability" (Averis, 2008, p.193). Or, as Lipietz puts it, "the usual situation should be a crisis. In other words, crisis is the normal, natural state and non-crisis is a rather chance event." However, economists interpret these crises as "casual phenomenon … without any theoretical importance (Lipietz, 1987, para.6)." To look at Boyer's words which tie

both Bertrand and Lipietz's thoughts together, Regulation Theory rejects the neo-classical treatment of crisis as a:

> sort of absurdity in so far as a crisis represents the difference between theory and reality in the economy in question, a result of the irrationality of consumers and workers (victims of monetary illusion, for example), inadequate information, or the blockage of market mechanisms by monopolies, labor unions or interest groups that introduce rigidities leading to inflation and unemployment (Boyer, 1990, p.25).

Nonetheless, this leads Regulation Theory to question how this system that is so crises-prone can survive, for at times decades, without any crises emerging, how "the inherent contradictions of the system can be held, at least partially and for a period" (Boyer, 1987, p.10). The answer to this question is that these episodes are not random but are certain stable configurations for the economy, which leads the theory towards one of its more fundamental aspects.

2. 1. Accumulation Regime

The accumulation regime, also called regime of accumulation by some regulationists, is the way in which Regulation Theory thinkers explain how capitalism avoids these aforementioned crises. As Lipietz puts it, "there are times when the configuration of social relations that defines capitalism reproduces itself in a stabilized way. We call such a continuing system a regime of accumulation (Lipietz, 1987, para.8). It is important to note that the accumulation regime is by no means a catch-all answer to capitalism that applies in one form throughout centuries. Instead, Regulation Theory views the accumulation regime as a distinctive period between crises in which the system manages to keep itself stable through a variety of inter-dependant and fundamental norms, values and institutions, all of which helps capital accumulation continue relatively unhindered. Boyer puts forth five different points of analyses with which to identify an accumulation regime, which, for him, are enough to "allow a general and more or less consistent evolution for capital formation":

- A pattern for production organization within firms, defining the way wage-earners work upon production means.
- A time horizon for capital formation decisions, according to which managers can use a given set of rules and criteria.
- Income shares between wage, profit and taxes, in order to reproduce the various social classes or groups.
- A volume and composition for effective demand, which validates the trends in capacities of production.
- Precise relationships between capitalist and non capitalist modes of production (Boyer, 1987 p.8-9).

As it has been mentioned before, early Regulation Theory writers have focused primarily on an analysis of Fordism, and thus, Fordist regime of accumulation. Even though there are some variances between different writers with regards to how they approach Fordism, (some going so far as to say that Fordism never managed to escape its crisis prone state and thus never really formed a sufficient accumulation regime) it is nonetheless possible to draw some common points from their collective works to further analyze the concept of accumulation regime with (James, 2009).

Primarily, the Fordist regime was based on the ideals of Taylorist production methods that preceded it. Taylorist production involved, in the eyes of the Regulation Theory writers, mass production on an assembly line which, as a principle, separates the conception and execution of work to obtain fast and continuous productivity increases through dividing the work done into simple and repetitive tasks (Natalia, 2010). In turn, Fordist production methods simply borrowed this, except essentially adding mechanization to the mix (Lipietz, 1987).

Secondly, and perhaps most importantly, the Fordist regime distributed some of the productivity gains that arose from Taylorist models towards both the profit and the wages. This resulted in wages increasing alongside productivity,

which aided both the buying power of the workers and the ability to make continuous, more guaranteed investments into businesses. Also, with increased wages came mass-consumption, which meant that the increased productivity did not run a risk of creating supply and demand issues.

However, this could not have happened without certain institutions and structures in place to make these events possible and stable, such as trade unions, the welfare state and monopoly regulation. All of these brought the proponents of Regulation Theory to a new concept that is just as fundamental as the accumulation regime.

2. 2. Modes of Regulation

As defined by Boyer, the mode of regulation is simply an “ensemble of norms, institutions, organizational forms, social networks and patterns of conduct that become mutually self-reinforcing to stabilize an accumulation regime which embodies both economic and extra-economic factors” (Averis, 2008, p.194). A Mode of Regulation can be examined in two parts; one, it involves a certain personal level, in which members of a society are behaving in a pattern that fits in with a specific form of culture and have a “willingness to play by the rules of the game”, while the second one necessitates a large variety of institutional forms that mold the society into a form that is suitable for the needs of the regime of accumulation (Lipietz, 1987, para.9). One important thing to mention is that various Regulation Theory writers and schools have used different words to define the concept of “Mode of Regulation”, many of which involve inserting the word social in some form or fashion, which goes to show that Regulation Theory tends to not only focus on the economic regulatory institutions but also other social and cultural forms of regulation (Averis, 2008).

Again, much like with the accumulation regime, modes of regulation also correspond to certain periods in history and certain places. We can see this both in Aglietta’s work and in early Regulation Theory writers’ research into France and

other economies in which they defined a variety of periods in history that were regulated by many different modes of regulation.[1] It is also of importance to this thesis to note that Alain Lipietz as well has mentioned that this variety can be applied to other countries, regimes and models of development, such as the Third World's relatively unique branch of advancement (Lipietz, 1987).

While most Regulation theorists agree on the main elements that form a mode of regulation, there is still some difference in their assessments with regards to particular institutional forms. However, for the purposes of this thesis, it will be sufficient to inspect the two only slightly differing views that Boyer and Jessop seem to favor, the former of which lists the aforementioned elements as such:

- The nature of the capital-wage labor nexus
- The type of inter-capitalist competition
- The character of monetary and credit relationships
- The manner of adhesion of the firms of the national economy to the international economy
- The forms of state intervention into the economy (Brenner & Glick, 1991, p.48)

In contrast to Boyer's assessment, Jessop seems to use wider, more encompassing terms in his analysis, such as listing "the state and its apparatus" instead of simply the states intervention into the economy, thus including factors such as form of government, political system or certain administrative institutions into the fold.

Jessop also expands the confines of the other factors, implementing concepts such as international relations between countries and firms and international organizations, foreign policy, immigration, military alliances, foreign exchanges and various types of economic regulation (Averis, 2008). In fact, it would

[1] An example of this can be found in Robert Boyer and Yves Saillard's article, A Brief Summary of an Historical Study of French Capitalism, page 20, table 1.

not be wrong to say that Jessop simply expands these five elements into almost every kind of social or political encounter which, conceivably, can be considered to be effective to economic policy or economics in general, although, admittedly, this may be a slightly lethargic approach.

Nevertheless, these abovementioned institutional forms are of significant importance for Regulation Theory and its assumption that modes of regulation are formed by this historically developed network of institutions which helps solidify the existing regime of accumulation and also, at the same time, makes individual choices made at differing places in society and economy compatible with each other, and, in turn, with the regime of accumulation (Brenner et al., 1991). Thus, it is important to closely analyze a select few of the most commonly found institutional forms in the writings of Regulation Theory writers.

2. 3. Institutional Forms

Primarily, institutional forms are specific configurations of social relations for any given era or geographical location (Boyer, 1987). These forms are given various levels of priority by different regulationists, as it has been mentioned before in regards to how Regulation theory thinkers view the state. Nonetheless, it could be said that Regulation Theory establishes a certain hierarchy amongst these forms according to which mode of regulation is in effect in the country at the time, for example, according to Boyer, for Fordism after the Second World War, "credit money, an original wage-labor nexus and an oligopolistic form of competition proved to be more important than transformation of the state in the strict sense" (Boyer et.al, 2002, p.39).

Money, to begin with, is listed as an important institutional form. This is due to the fact that money is seen as a "general equivalent, a mode of connection between economic units (Boyer, 1987, p.12)." As mentioned above, money also fits the institutional form concept in that it is different from country to country and time to time, as money is by no means neutral -nor is it a simply national

phenomenon-, as it involves wider areas of circulation and exchange, and as there are many different monetary regimes throughout the world. This leads to the important statement that Regulation Theory believes “the overlapping of institutional forms implies the rejection of univocal explanations of economic phenomena”, meaning that there can be no encompassing monetary theory which can explain situations such as oversupply, monetary constraint and credit shortages throughout various countries (Boyer et.al, 2002, p.39).

The wage labor nexus is another key institutional form, which, to put it simply, involves the problems related to work organization and the standard of living for wage-earners (Boyer, 1987). The wage labor nexus describes the type of appropriation of surplus in the capitalist mode of production (Boyer et.al, 2002). Boyer states that a specific type of a wage labor nexus can be defined by looking at five components, which he lists as stability in employment, the means of production and control over workers, the division of labor based on the necessary skill level, welfare state organization, and the way in which wages are determined (Boyer, 1987).

Regulation Theory tends to define a variety of forms of wage labor nexus throughout history and throughout a range of countries. For the purposes of this thesis only a select few of these are of great importance. Briefly, a competitive wage labor nexus was said to be in place in the 19th century, which was characterized by most of the workers’ consumption coming from non capitalist modes of production and by the fact that there were almost no collective organizations to oppose market forces. The period after the First World War however is called the Fordist wage labor nexus, in which mass consumption is very directly related to mass production, which reduced unemployment rates and was characterized by wage being indexed directly to prices and productivity gains (Boyer, 1987).

The wage labor nexus that exists in the neo-liberal world of the last few decades, on the other hand, can be defined by a few certain parameters. First of all, the welfare system and higher rates of employment in the Fordist wage labor nexus have left their places to a diminishing and weaker welfare net (primarily in Anglo-Saxon countries, it must be said, this trend has largely been avoided in certain other sections of the world and the West, such as most Northern European countries) as well as rising unemployment with the main focus related to employment shifting from "full employment" to "full employability", leaving the burden of finding a job on the level of the worker rather than the state or the market (Averis, 2008). This has also led to a departure from Fordism's relation of wages to productivity increases, in that in the current system, due to unemployment being a more severe punishment in the labor section, wages are more easily suppressed, thus making the entire market, labor included, competitive (Averis, 2008). Also of importance is the fact that labor unions have been disempowered and collective rights have been rolled back through the last few decades. Regulationists such as Lipietz suggest that all of these factors have led to a certain population in many countries which have become severely disenfranchised and isolated from the "core" of the society, creating minority groups that are labeled as "delinquents", such as some members of the African-American communities in the United States and the younger population that were complicit in the widespread rioting in England in 2011 (Averis, 2008).

The type of competition is yet another institutional form Regulation Theory focuses on. Simply, it indicates how the relations between producers are organized (Boyer et.al, 2002). Even though certain theories and in a sense the concept of the accumulation regime both assume a specific level of homogeneity in different areas of the capital, this is rarely the case and the competition between different sectors and different companies can be especially important in analysis. Similar to the wage labor nexus, the type of competition can also be unique in various countries and periods of history. Boyer offers two types of competition, the traditional price

competition, marked by price variation as the main way of adjusting any discrepancies in production and consumption alongside bankruptcies and closure of plants, and the oligopolistic competition, which is the type of competition most countries of these last few decades in world history adhere to. In this type, different firms compete through advertisements and product differentiation with prices more accurately following expected consumption trends based on research and internal planning by these firms (Boyer, 1987).

Another vital area of deliberation is that of the international regime. Regulation Theory, while accepting the fact that international regimes do not have the same influence on national institutional forms as other elements, still gives relevance to the idea that the international regime and its many different arms such as those related to trade, investment, organization of financial flows and exchange do influence the mode of regulation and national economies. This is done mainly in the interest of strengthening an analysis in reality rather than sticking to purely abstract forms in which it is possible to ignore the existence of international factors on a national economy. It also accepts that this influence is largely based on the relationship between a nation's own institutions and how they are connected to the regime than on the strength of the regime itself (Boyer, et.al, 2002). Nonetheless, Regulation Theory values the core fact that international pressures such as strategic areas, opportunities and constraints that are particular to each nation through the world system do affect each nation's domestic sphere. Similar factors such as political hegemony, financial competition, technological domination and international stability are also accepted as being factors in the particulars of a country (Boyer, 1987).

Following an analysis of international regimes, it is also mandatory to look at how Regulation Theory views the state as an institutional form, as well. However, there is quite a bit of difference between different regulationists in how they approach the state. By some regulationists the state is viewed as a factor involved in regulating the economy whereas for others it is an institution which is regulated

itself. Likewise, while some regulationists view the state as the core actor in the process of regulation, others view it as one of many actors, and amongst those not even the primary actor (Jessop, 1997). However, it could be said that most regulationists view the state, as well as the previously mentioned international regimes, as key elements in the economy and in the formation of a stable regime of accumulation. The state is posited as being able to create certain conditions for the profitable operation of the capital and the reproduction of labor, as well as having an important role in balancing the contradictions between the international economy and the national markets.

The state is primarily valued as having the option of using law as a form of coercion to facilitate economic transactions and, in general, to turn back to a point made earlier by Lipietz, an inclination to obey the rules of society. This view is also reinforced by Bob Jessop, who writes about how:

> the state is responsible for certain key conditions for the valorization of capital and social reproduction of labor power and also has overall political responsibility for maintaining social cohesion in a class-divided social formation (Jessop, 2001, p.8).

Nonetheless the state is also viewed as not directly being a part of pure capitalist relations, in regards to certain powers like its power of taxation (Boyer, 1987). Despite all of this, there is also a prevailing notion that the role of state has changed, much like other institutional forms, through the last centuries, conversely gaining power and becoming larger while becoming less vital and relegated to smaller sections of society. In a similar vein, the state is also viewed as aiding the accumulation regime only through "providing an improbable, provisional and unstable spatio-temporal fix" (Jessop, 2001, p.9).

2. 4. Modes of Development and Crises

Combining the mode of regulation and the accumulation regime, the Regulation Theory comes up with the concept of modes of development, which are defined as the situation in which a mode of regulation and an accumulation regime

come together to create a stable economic environment for a lengthy period. Following this, it analyzes the way in which these modes of development eventually run into crises and give way to new modes (Boyer et.al, 2002).

This combination of the two main concepts of Regulation Theory leads into perhaps its most well-known analysis, that of Fordism. Fordism is seen as one of the main modes of development in regulationist writings. It must be said that there are differing accounts in this aspect of the theory as well, while some, like Lipietz, define Fordism as a mode of development, others view it more as a particular form of accumulation regime (Lipietz, 1987). However, considering the rather long duration in which Fordism was the primary "accumulation regime" in the world and how it avoided crises for much of its life, it can be said that it is slightly more accurate to suggest that Fordism constitutes a mode of development.

Prior to an analysis of Fordism however, it is much more imperative to look at how Regulation Theory views the mode of development in greater detail. Regulation Theory suggests that these modes of development arise from a particular accumulation phase and particular mode of regulation. Looking back at the history of capitalism, regulationists tend to see three distinct phases of accumulation.[2]

The first of these is a period of extensive accumulation. Extensive accumulation is a period in which there is a substantial integration of science and technology in the production process, but there is no necessity for constant improvement for the rate of profit to rise. In a similar fashion, companies do not have long term plans, and often do not even have long term life spans. The labor relationship is posited more on the workers' production rather than their consumption. As a result, profit and growth arises from the hiring of more workers

[2] Even though there is a link to the regime of accumulation, considering the same word is used, it should be remembered that the mode of development involves a stable accumulation regime that is strengthened by a mode of regulation. Furthermore, these three distinct phases are only carried out until mid 1980s, since even though there has been many attempts, there is no uniformally accepted analysis of a Post-Fordist mode of development amongst régulationist writers.

or increasing the duration of work hours, at the same time, profit stagnation is a constant issue due to the fact that there are no brand new industries created by technological breakthroughs and in direct correlation, there are small investment opportunities. As can be inferred from all of these points, this period is classified predominantly as the period between the end of the 19th century and the start of the 20th, coming to its conclusion following the First World War (Boyer, 1987).

The second of these periods is one of intensive accumulation, without mass consumption. This is usually used to describe the period between the First World War and the Great Depression. In this period scientific development causes drastic transformations in industry, one of which is the transition of certain products past the barrier of mass consumption (Boyer, 1987). However, consumption is not yet ready to meet this rise in productivity due to little to no wage increases, thus, it can be said that the mode of regulation is unable to institutionalize the necessary mass consumption required for the mass production caused by the abovementioned intensive accumulation (Brenner et.al, 1991). Due to this contradiction, this period is not one that lasts very long.

Following this unsuccessful period is one of intensive accumulation, but this time it is with mass consumption. This period is characterized even more strongly by “investment in fixed capital embodying technical advance”, examples of which are the television and the radio, which paves the way for regular increases in productivity (Brenner et.al, 1991, p.5). More importantly however, there is also a new relationship between capital and labor, as mentioned before in the preceding chapters, in which workers are now both producers and consumers of these new goods due to wage increases. This analysis is used to classify the duration from 1945 to 1973.

In addition to these accumulation periods, Regulation theory also defines certain types of mode of regulation that has been seen throughout history, with two of more significance. These are the competitive mode of regulation and the

monopolistic mode. In the competitive mode of regulation, there is craft control and the competitive determination of prices and especially of wages, while the monopolistic mode involves scientific management, an oligopolistic system of pricing and the determination of wages through a system involving complex capital, labor and institutional relations (Brenner et.al, 1991). As can be inferred, the aforementioned period of accumulation between 1945 and 1973 was one of monopolistic mode of regulation coupled with intensive accumulation.

Fordism, which is a focal point of analysis for Regulation Theory, is more generally defined as the period in which intensive accumulation and the monopolistic mode of regulation were seen at the same time, although certain regulationists argue that Fordism first came into existence during the inter-war period but could not gain the necessary conditions to grow. For example, according to Jessop, even though standardized mass production and a Taylorist division of labor were both in place prior to the Second World War, as early as 1930s, it took until after the war for the necessary environment for the system to grow (Averis, 2008). Nonetheless, the post-war period of the 1940s and onwards is said to be an unprecedented period of stability in history, and this is attributed to Fordism. The most important aspect of Fordism is said to be:

> …the existence of a particular form of collective bargaining in which labor ceded to management full sovereignty over the labor process in exchange for wage increases in line with productivity growth and inflation. This allowed capital to accelerate innovation without fear of workers' opposition and to make major placements of fixed capital without fear that these would fail to be realized (Aglietta, 1979, p.197).

It is also said that this event did not happen by chance or by particular effort on the side of the mode of regulation but was rather won through at times fierce industrial action by the workers themselves (Averis, 2008). Either way, as a result of this, corporations could take actions that were much more long term than before, in both the investment area and the production processes. Also, the state's adoption of Keynesian policies meant that high levels of unemployment and small drops in

demand could be countered, in addition, the welfare state, through the safety net it provided for those who could not work or did not have jobs at the time, helped redistribute income and keep the economy turning over. In addition, new credit systems allowed consumers to take long-term credit and thus keep up with production on a larger scale (Brenner et.al, 1991).

In the long run however, Fordism itself ran into a, it can be said, much delayed crisis. As mentioned before several times in this thesis, Regulation Theory has yet to put in a substantial mode of development that can fully explain the world in this post-Fordist era, perhaps best explained by the fact that this era is still defined as "post-Fordist", by using the terminology of the period before it. Nevertheless, it is possible to find some reasons as to why Fordism collapsed. These include:

- The rising expectations of labor (both in a sense of workers desiring more and in the sense of the newly arising industries requiring severely more skilled workers.)
- Increasing resistance to class-based forms of exploitation by women and ethnic minorities
- The expansion of the welfare state and associated demands upon it (best viewed in a neo-liberal fashion and all the cutbacks in the welfare state the new mode of development has caused.)
- The breakdown of the international monetary regime with the collapse of the Bretton Woods System
- The oil shocks of 1973 which increased the cost of imported fuel
- Increasing competition from Europe and Japan (due to this factor there is plenty of Toyotism articles from regulationists, as until the Lost Decade there was widespread belief that Japan's economic model would be the new dominant model in the world.)
- Technological advancement
- Falling rates of profit rushing capital to offshore opportunities

Nevertheless, as can be seen with regards to the “fall of Fordism”, modes of development do not reproduce themselves infinitely throughout history, rather, through chance and unforeseen events crises arise which sometimes explosively end a particular mode of development. Regulation Theory has several different classifications of these crises, which it believes are of many different forms.

The first of these, the exogenously triggered crisis, refers to shocks from outside, which in the confines of Regulation Theory means from outside the mode of regulation. However, these crises are not given a lot of importance as they are seen as a form of small anomaly (Boyer et.al, 2002).

The second, the cyclical crisis, is slightly more central a crisis in character. These crises are seen as “usual” in any stable mode of development. Common lags between demand and capacity or discrepancies between stocks and flows in the financial sector are seen as examples of a cyclical crisis. These types of crises do not pose the risk of destroying the system, but instead they are the system’s self equilibration in progress, such as the fall that follows every boom. In fact, since this definition does not have the doom and gloom of the word “crisis”, Boyer even suggests using the term “usual business cycle” instead (Boyer, 1987). However, despite this, cyclical crises still imply a slow change in various institutional forms as they are combated, even though there does not need to be the formation of new institutions. Similarly, state intervention is not necessary for growth to continue, despite the fact that some state intervention is needed to eliminate the problems causing the crisis in the first place. However, cyclical crises are also said to point to problematic areas in the system that may eventually lead to structural crises, unlike exogenously triggered crises which are crises that occur from the outside and affect the system. Thus it could be argued that cyclical crises are crises that are smaller in scope and effect and do not mandate significant change within the system, despite at times pointing to structural deficiencies.

The third and severely grave type of crisis is the structural crisis. This is the situation in which the institutional forms are completely at odds with the existing mode of development, which causes them to be abandoned or destroyed. The limits of the mode of development become evident in every aspect of life as the system is now unable to reproduce itself within the basis in which it existed (Boyer, 1987). There are three ways to differentiate between a structural crisis and a cyclical crisis. Firstly, the rate of profit cannot go back up on its own without direct intervention due to the inexistence of self-correcting mechanisms. Secondly, most institutional forms are questioned by the spreading of the crisis from its beginnings to the whole system, and thirdly, the way out of the crisis cannot be found by letting economic mechanisms play their role, as they are in direct contradiction with one another. This calls for intervention from governments, leading firms, unions and other institutions to promote a new mode of development.

In the following chapter the thesis will focus more on the American example, both to bring more light into how this crisis arose and the patterns which it followed, and to bring more light into certain financial institutions and concepts which are very directly related to the crises that arose in other countries following the events in the United States. Thus, the thesis will also have the opportunity to compare the scope of the crisis to Regulation Theory's crisis definitions to clarify how serious this crisis would have been in the eyes of Regulation Theory.

CHAPTER 3

AN ANALYSIS OF NEO-LIBERALISM AND THE CURRENT GLOBAL CRISIS THROUGH THE AMERICAN EXAMPLE

In 2007, the world economy shook to its core. A crisis, the likes of which had been unseen for nearly a century, seemed to occur overnight, with banks and insurance companies reporting financial problems back to back, some declaring bankruptcy, some asking the various governments in their home-states for help. In Britain, a bank run took place, something thought to be a memory of a more tumultuous past, while in the United States of America, home owners who were lulled into a false sense of security suddenly found out that they could not pay the mortgages on their houses or that their pensions had literally disappeared overnight (Rush on Northern Rock Continues, 2007).

Of course, it would be naïve to assume that this crisis actually took place that suddenly. In every single country that was affected by the crisis, there was a reason, a certain kind of foundation unique to that country and its past experiences, drawing upon the Regulation Theory idea of institutional forms, regimes of accumulation and modes of regulation differing from country to country. Nonetheless, considering the system, at the very least in the western hemisphere or in the countries that felt the crisis most severely, was rather uniform in certain basic aspects, the crisis spread out quickly through similar mechanisms from one country to another, bringing in mind the existence of a structural crisis. Thus, it would not be wrong to say that the crisis did not really originate in one country altogether. The media coverage tended to focus on the United States of America, for indeed, the biggest effects of the crisis were felt there firstly, however, before the first major waves began to hit the American media, the British mortgage giant Northern Rock

was already having troubles that were quite public, at least public enough for banks in Britain to start lending to each other at record high levels, a sign of their lack of confidence in the market.[3]

But Britain was not the only country that already had a past that was going to feed into the crisis that was to come. Greece was also in trouble, even though they managed to delay their financial crisis a few years compared to the United States of America, their frail economy was showing signs of trouble even before 2007. In as early as 2004 it was known that Greece had falsified its economic data, namely reporting its budget deficit to be much lower than it was to the EU, a practice which they had been maintaining for the last five years, even at that time (Barber, 2010). The depth of the situation in Greece will be further examined in the following chapter.

Britain and Greece are but a tiny fraction amongst the sea of countries that would have massive economic troubles in the upcoming days and months in 2007 and onwards which already had problems before the crisis hit. But even though the crisis was a global one, and both its causes and repercussions were well-spread, it is true that the United States of America has become, as it has been mentioned before, the focal point for the crisis, for the United States of America perhaps showed best the problems inherent in the economic system that lead to this crisis and its effects. This is also because the common elements that can be found in modern models of development, regimes of accumulation and modes of regulation can all be found within the United States' system, as a result making it the perfect representative of neo-liberal capitalism, thus also providing the thesis with the opportunity to look at the neo-liberal system in which the United States plays the role of the center country drawing resources from the periphery.

[3] This is a concept related to the interbank lending markets. In simplest terms, banks need to have certain levels of liquidity at all times. Some banks may have excess liquidity while others can not meet the liquidity requirements. As a result, banks lend to each other to cover up these shortfalls, for very small periods, mostly overnight. When this rate increased at Britain in September 4, 2007, the reason was that banks were worried about whether or not other banks would survive, such as the case with Northern Rock and because they were worried about possible asset losses in this case.

Thus, for this reason, this chapter will involve an analysis of the situation in the United States, looking at the background of the crisis and the background of the current neo-liberal system to get a sense of grounding into the concepts that matter, for the United States best characterizes the inherent corruption and inter-connectedness in the financial system that has led this crisis to be so extensive. This is to strengthen the thesis's progression in the upcoming sections as these aforementioned developments are going to be as vital in Greece, and the United States gives an easier to analyze example considering the crisis arose there originally. Furthermore, the fact that the American system is emblematic of the current capitalist system as a whole provides a unique opportunity, as even the Turkish crises that occurred in 2000-2001 were a result of neo-liberal economic policies, namely de-regulation. This provides the thesis with the opportunity to analyze the occurrence of a crisis in this "cradle of neo-liberalization" and to give a brief look to the causes of the American crisis hand in hand with Regulation Theory analysis. As a result, in this chapter the focus shall be on the developments in the United States to give a background to the crisis, and then explanations of the financial concepts that were involved in it, all of which will be grounded in Regulation Theory analysis, to give a clearer view into how this entire crisis occurred and spread throughout the world.

1. 1. An Analysis of Neo-liberalism

It is commonly asserted, by academics such as Dumenil and Levy for example, that the process of neo-liberalism within the world started following the crisis period of the 1970s and the collapse of the Keynesian system that the world had adhered to for almost the last half century. Furthermore, even though this might be a simplistic analysis, the Keynesian model was largely characterized as consisting of large growth rates, sustained technological change, increases in purchasing power, lower unemployment and the rise of the welfare system. However this model, as mentioned, ran into troubles in 1970s through rising unemployment and inflation, as well as a stall in growth rates. The Keynesian model

was unable to unravel this issue, and as a result a neo-liberalism emerged as a new model (Duménil & Lévy, The Neoliberal (Counter)Revolution, 2007).

Despite these developments however, neo-liberalism is often also believed to be a new social order rather than an "ideology of the market" that opposes state intervention. In this vein, neo-liberalism is viewed as a pattern in which the power and income of the upper fractions of the ruling classes rose. It is this restoration of income and power to the wealthiest that has lead to the problems and instability within the world in recent years (Duménil & Lévy, Neoliberal Dynamics - Imperial Dynamics, 2003). In this aspect, it can be said that neo-liberalism includes:

> a new discipline of labor and management to the benefit of lenders and shareholders, the diminished intervention of the state concerning development and welfare, the dramatic growth of financial institutions, the implementation of new relationships between the financial and non-financial sectors to the benefit of the former, a new legal stand in favor of mergers and acquisitions, the strengthening of central banks and the targeting of their activity towards price stability and the new determination to drain the resources of the periphery toward the center (Duménil & Lévy, The Neoliberal (Counter)Revolution, 2007, p.2).

These problems and the arising instability are also connected to another important concept, globalization. It is important to note that globalization is a process that has been going on for a rather lengthy period and that under neo-liberalism it is possible to witness a different form of globalization, largely characterized by factors such as growing foreign exchange transactions, international mobility of capitals, the expansion of transnational corporations and the new roles of international financial institutions such as the IMF and the World Bank, as well as the continuing dominance of the United States center (Duménil & Lévy, The Neoliberal (Counter)Revolution, 2007, p.3).

Moreover, it is this dominance of the United States that is of great importance to neo-liberalism as well as this thesis. This domination, or the United States' hegemony, refers to the role of the United States as the center or the leader of a group of neo-liberal, imperialist countries. This definition of imperialism, instead of being one related to a stage of capitalism, is more one of a relationship

between the countries of the periphery and the countries of the center, in which, as can be expected, the countries of the center exploit the periphery (Duménil & Lévy, Neoliberal Dynamics - Imperial Dynamics, 2003). This type of relationship is what has led the crisis in the United States to have such overarching consequences throughout the world, such as leading to the Greek crisis. In addition, a second layer of peripheral relationship can be defined in the Greek state with regards to the country's position within the process of European integration, but this topic will be handled in greater detail within the Greek chapter. It is also possible to place Turkey within this system of relations as well, as even though the Turkish crisis occurred earlier than the Greek or American crises, it was still a crisis of the neo-liberal system that the country had relatively recently adopted.

A certain amount of focus into the particulars of this relationship within neo-liberalism between the center and the periphery has to be given before the thesis can return to its analysis of the crisis in the United States which has led to the global crisis. Initially it must be mentioned that within this relationship, the ruling classes of the periphery and the center are the classes that benefit. While the ruling classes in the periphery are often dominated by the ruling classes of the center, this does not change the fact that the accompanying neo-liberal transformation ends up benefiting the ruling classes of the periphery as well. This transformation often entails the privatizations of entire sections of the economy as well as entire industries, and within the crises seen around the periphery near the end of the 20th century, of which the Turkish Crisis was also part of, it is also possible to see several problems with regards to exchange policies (Duménil & Lévy, The Neoliberal Era: Argentina's Reprieve and Crisis, 2006). In addition to these more common developments, it is possible to see "mainstream neo-liberal policies" influencing the countries in the periphery as well, such as policies targeted primarily at price stability, relaxation of barriers to international trade, opening of the financial sector to foreign investment and the like (Duménil & Levy, The Neoliberal Era: Argentina's Reprieve and Crisis, 2006, p.394).

In the following chapters of the thesis, especially within the examples of Greece and Turkey, it will be seen that these developments have occurred during and after the crises that these two crises have experienced as well. In addition, it can be said that the American Crisis is simply part of a larger crisis of neo-liberalism, as in the following sections the thesis will focus primarily on the effects that neo-liberalism has had on the country's system, such as progressive de-regulation and rising financial innovations. It could thus be argued that this neo-liberal transformation that has occurred within the recent decades has, almost, negatively affected the world throughout. The following chapters will also show this process from a theoretical perspective as the thesis analyzes the developments within these countries through the lens of Regulation Theory.

3. 2. The 2007 American Credit Crunch

The USA had entered the new millennium in a strong economic position. After eight years of the Clinton administration, the economy was in one of the best spots it had been for the last few decades, and it would not be over-ambitious to say that the country's image was as good as its economy. Or at least, this is what analysts in the United States believed. For in reality, the situation was much worse than they had expected.

It is possible to see this discrepancy in a variety of areas. Initially, and perhaps most importantly, analysts within the U.S. believed that the rise in the housing prices did not attribute to a housing bubble, which will be further analyzed in the following section of this thesis. Instead, they believed it was a justifiable rise due to financial innovation, the capital inflow from Asia and oil exports. Similarly, the huge current account deficits the U.S. was running for decades now (which, according to estimates in 2011, was the largest in the world by about six times its closest competitor, totaling at six hundred billion dollars)[4] was thought to be

[4] A current account deficit is a basic concept that is used to define the situation in which, basically, a country's total imports are greater than a country's total exports. For more information about the

justifiable as well, for certainly, factors such as a flexible economy, innovation and a continuous tech boom could propel the United States economy into a long period of growth and productivity (Reinhart & Rogoff, 2008). Following these misconceptions, it is almost impossible not to remember this quote from David Harvey. “In the course of a crisis, capitalism is forced to abandon the fictions of finance and to return to the world of hard cash, to the eternal verities of the monetary basis (Harvey, 2006, p.292).”

Nonetheless, the following years after the Clinton administration, and of course the September 11 attacks and their aftermath, brought certain fault lines within the United States economy into better view, while also creating newer, more dangerous ones. The Bush tax cuts for the wealthy led the U.S. towards bigger and bigger deficits with each passing year as spending rose incredibly and while social security services were lowered, the military spending for the wars that the U.S. got itself into was soaring. As it was explored in the previous chapter, the post-Fordist system was fully dedicated to rolling back the welfare state that had been applied in the previous mode of development.

However, perhaps regretfully, the economic crisis would not strike from such a “usual” place like government spending. The causes for the financial crisis, while obviously not unlike other crises that had been seen, were nonetheless, arguably unique. As extravagant a statement as it may be, the entire economy was already rotting at its core, and this rotting setting was what the entirety of the world’s financial system was resting on. From a regulationist perspective it is easy to see that this was due to fundamental issues in the existing regime of accumulation and mode of development.

To understand the crisis, it is imperative to focus on the economic state of both the United States and the world, for as it has been hinted at before, what took place in the United States would later ripple outwards and set off similar crises in

U.S. current account deficit, the Central Intelligence Agency World Factbook’s comparison list can be browsed.

other countries, including such countries as Spain, Portugal, Iceland, Italy, Greece and Ireland. In addition, it is also important to set the groundwork for the sections to come by explaining the fundamental economic concepts that matter to this topic.

It has already been mentioned that the American economy had declined from its relatively stable position at the turn of the new millennium; however there is no need to examine the entirety of the American economy and economic policies over the years that led to this event. That said there is nonetheless still a certain amount of information that must be given, for as it has been mentioned before, the financial system centered on Wall Street was, and is, much more widespread than the United States borders.

3. 2. 1. The Timeline of the Crisis

The reasons for the greater world economic crisis can be traced back for decades. In a similar fashion, it is also possible to trace the causes of the crisis in America several decades as well, in fact, certain arguably fundamental aspects of the crisis find their roots in the New Deal proposed by Franklin D. Roosevelt as a way to combat the Great Depression.

Of course, this amount of attention to detail would be extravagant considering the scope of this thesis. Nonetheless, a certain background into the actual, physical events of the crisis is fundamental before delving deeper into the more financial and political background of the crisis. For this purpose, this chapter will investigate, as informatively as possible, how the 2007 crisis started and developed. A Marxist analysis of this crisis of neo-liberalism foresees three developments which caused the crisis directly, which are the growing inequality between wages and profits amongst households, a series of large asset bubbles and a financial sector that became increasingly absorbed in speculative and risky activities (Kotz, 2009, p.7). As a result the following sections of this chapter will analyze these three developments in brief detail while following the course of events in the United States.

Thus, the development of what can be called "ease of use" mortgaging and credit techniques may be as good a place to start as any. During the period between the 60s and 80s several new institutions and laws were passed within the United States, each one making the mortgage markets more comfortable for investors to access or broadening the scope of the credit markets to greater areas of society. Two of these institutions that are of major importance to the events to come were Fannie Mae and Freddie Mac.[5] These developments will be investigated in greater detail in the upcoming sections within this chapter, but for now it should be sufficient enough to say that these progressive improvements did much to expand both the housing and the financial sectors within the United States. It is imperative to note here that despite the fact that in the context of the 2007 crisis these developments may seem ominous, they were much more beneficial and natural in the periods in which they arose. This was partly due to the fact that under the existing neo-liberal regime, the United States had started to see a widening income gap between various classes in the system, which necessitated policies to bring the lower classes into the system. (Kotz, 2009)

However, the good nature of some of these changes did not help to prevent certain adverse effects to the economy, and near the end of the 90s the United States went through a very similar crisis to the 2007 one, at least in as far as the reasons are concerned. During this crisis the housing market shrunk to levels that rivaled the period which constituted the Second World War; however the growth that followed the Clinton era in domestic politics eventually led the market to manage to once more reach the pre-crisis levels. This was also caused by the introduction of laws that encouraged the buying of second homes through exemptions from tax, provided the owner sold the newly bought house within two years of the transaction, which led to the secondary house market to boom.

[5] Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, they are commonly shortened to Fannie Mae and Freddie Mac, respectively.

Despite this brighter note however, this period also marked the institutions of laws that forced certain governmental institutions to start buying subprime mortgages. Once again, this factor will be investigated in greater detail in the following sections. However, this development in which the government seemed to be backing loans that the banks give caused the mortgage market to grow exponentially and the percentage of rejected mortgage applications to lessen considerably (Federal Financial Institutions Examination Council, 2004). This situation was further exacerbated by the aforementioned institutions easing credit requirements to encourage banks to open up credit to those who do not have records good enough to qualify for regular loans.

All of these factors led to the boom in the housing and mortgage markets that formed the backbone of the crisis before the start of the new millennium. However, this trend would continue without halt in the 2000s as well. The decade began with financial deregulation in the form of allowing financial institutions to be able to trade with minimal oversight amongst each other (Leonhardt, 2008). Once more, this will be further investigated in the following chapters regarding the financial system.

The mortgage sector deteriorated rapidly in standards in the new millennium as well. Until 2005 mortgage fraud (falsifying information on an application to get greater loans than possible) increased by over a thousand percent (Mortgage Loan Fraud: An Industry Assessment Based Upon Suspicious Activity Report Analysis, 2007). Also, the refusal rate for mortgages fell even lower than their level in the nineties. Furthermore, the prices of houses in several states in the United States increased yearly by sometimes as much as ten percent. Political concerns also deepened the issue with politicians pandering to minorities by attempting to increase home ownership through even more relaxed credit requirements and opening new tax exemptions to allow people to buy houses more easily (The White House Archives, 2002). All of these developments raised the home-ownership rate in the United States to reach its all time high level.

The following year marked the first beginnings of the economic crisis. The housing market slowed down initially, with the rise in home prices falling down. This rate in which these prices fell down increased as time went on and the first wave of foreclosures hit home owners, reaching a million in number by the end of the year, and continuing into 2007, which marked the “official” beginning of the crisis, with twenty-five mortgage lenders declaring bankruptcy in the month of February. The crisis spread worldwide in the following months, with the worldwide effects being felt as far as Europe and China by August, with the aforementioned bank run on Northern Rock in Britain taking place in September. The remaining months of the year saw the situation deteriorating with more financial institutions collapsing throughout the world and the housing market following suit, with the number of foreclosures increasing to two million. The Federal Reserve in the United States tried to combat the trend by reducing interest rates, something it would continue to do for a long time, alongside worldwide injections of money to banks throughout the world with the Bank of Japan, the European Central Bank and the United States Federal Reserve giving a total of 43 billion dollars (Moore, 2007).

The crisis would reach its peak in 2008. Even though the first half of the year went by without massive downturns in markets, excluding the continuous deterioration of the investment bank Bear Stearns which led then-President Bush to create a legislation which offered 300 billion dollars to guarantee existing subprime mortgages, September proved catastrophic. Fannie Mae and Freddie Mac were both nationalized within the first week of the month, which created massive panics since both institutions combined held more than five trillion dollars worth of debt between them. This was followed by the collapse and eventual sale of Merrill Lynch and the bankruptcy of Lehman Brothers, two giant financial firms, both events catastrophic.

These events were followed by the proposal of the first of many bailout packages in the United States, for the purpose of buying what were called “toxic assets”, such as subprime mortgages, for the amount of 700 billion dollars. During

the proposal, Ben Bernanke, one of the proposers of the bailout, famously said "If we do not do this, we may not have an economy on Monday (Sorkin, Henriques, Andrews, & Nocera, 2008)." The bailout bill, called Troubled Assets Relief Program (TARP) was passed in October. Just two weeks after, 250 billion dollars would already be taken out of the bill and injected into the banking system, and just a month later the Federal Reserve pledged 800 billion dollars to "revive" the financial system.

The crisis would continue on through the following year, and the year after that. In fact, many analysts still suggest that the crisis is continuing in some form or fashion within the United States still, despite its effects having lessened. Of course the results from the crisis would continue on for much longer in other countries such as Greece, up towards the current day. However, for the purposes of the thesis and for the purposes of understanding the background of the American crisis, this analysis will have to be sufficient. In the following sections, areas that were mentioned in this section will be defined in greater detail and explained, so as to facilitate the analysis of Greece and Turkey in the chapters to come by setting the financial backdrop of their crises and situations as well. In the following sections, the thesis will analyze the areas from which the crisis arose from in the United States, in the meantime both shining light on these areas and examining in greater detail the main fault lines in financial capitalism of modern times, as most of the financial "innovations" that will be examined in the following sections are the culprits of crises in other countries such as Ireland, Greece, Spain, Italy and Portugal.

3. 2. 2. The Housing Bubble

Amongst the most commonly cited reasons for the economic crisis is the ever-growing housing bubble in the United States, with the crisis having its roots in the falling prices after the bubble had burst (Reinhart et.al, 2008). It is not a well-hidden secret that the housing market is prone to crises; in fact there are economic

theories which document that it is one of the sectors of the modern economy that is almost always guaranteed to enter into crisis, due to fundamental supply and demand factors. Even though the housing bubble in the United States fed upon certain new nuances, however, at the end of the day it affected the country's economy in much the same way a long and sizeable housing bubble affects any economy.

What lies behind this housing bubble was a variety of factors that have been explained in the preceding section whose results were very significant. From mid-1990s towards mid-2000s, the housing market in the United States grew by large amounts, coinciding with an ever-growing increase in house ownership percentage. In and of itself this did not need to be a serious occurrence, however, house prices also increased during this period. In fact, the housing prices in the United States rose to almost double the usual averages in past banking crises in advanced economies, reaching almost record highs (Reinhart et.al, 2008). A more in depth look via Marxist analysis would suggest that the bubble arose due to:

> …an attempt to expand the economy faster than the flow of new value which was being generated in production. This new value provides the basis of wages and salaries people use to pay their mortgages. When house prices increased much faster than workers' incomes, an unsustainable bubble was created (Kliman, 2009, p.52).

The situation that was, however, perhaps more integral to this entire situation was that most of these houses were backed by mortgage contracts. To explain the situation in layman's terms, a rather large amount of American house-owners, and even those with two houses, took mortgages on their houses with the expectation that the price increase in the housing market would continue. These mortgages were called "adjustable-rate mortgages"[6], and in essence, they allowed the home-owner to take credit on their house with an interest that was below market levels for the first few years, but would then reverse to market levels

[6] In the context of the United States this name is more common, however in many European countries adjustable-rate mortgages are the basic concept of a mortgage.

following this period. The underlying theory was that as house prices went up during the lower interest rate years, the home-owner would then be able to re-imburse the mortgage[7] before the rates reached their market level.

This entire situation was further compounded by the ever growing housing market in the United States. As mortgage and interest rates kept on at their favorable level, construction companies were in an unprecedented period of profitability, which led to a massive increase in the amounts of houses that were being constructed. This, of course, eventually resulted in a form of “capping out” in which the demand for houses in the country, fundamentally, became much lower than the supply. This caused houses to lose value after almost a decade, which meant mortgages could not be re-financed through the methods that were described earlier.

Even though this entire situation looks grim, it need not have caused the massive economic crisis that followed it. However, this was only the beginning, as mentioned in the previous section. During this period, especially in the latter half of the decade in which the housing bubble grew, speculative transactions were also increasing in the housing market, in which an investor would buy a house, hold on to it as its value rose, and then sell it off when conditions were favorable. This constituted almost a quarter of the entire housing market in the United States and when interest rates were increased between 2004 and 2006, these investors withdrew from the market, further deteriorating the conditions in which it was in.

All these mentioned factors are important for they are necessary measures of grounding the crisis in reality. It is not a very difficult thing to do to completely distance the actions of “real” people, by which is meant mostly middle and lower

[7] To explain in an example, a home owner may have a house that is worth $100.000, and may take credit on it to the level of $60.000, meaning the equity the home owner has is $40.000. Now, if in a few years the house prices rise to a level which would mean the equity is higher than $60.000, for example $130.000, then that would allow the home owner to re-imburse the mortgage. In essence that would mean borrowing money once more from the bank, and what is more, the home owner would also pocket the $10.000 difference.

classes, from the crisis and to only blame the rich, or Wall Street, or financial sectors or the governments of the world. Thus, it is imperative to note that in all of these countries there has always been a human factor, and this statement itself, of course, is excluding that the more powerful who were involved in this crisis were human, too. Nonetheless, once this groundwork has been laid down it is now possible to progress into the sides of the American economic crisis that were predominant in almost the entire Western hemisphere, at least the parts of it in which the crisis had any effect.

3. 2. 3. The Financial Sector

Lending practices in the United States, and across the world, have been getting laxer and laxer in the past few decades, as mostly a side effect of neo-liberalization. The financial sector is the embodiment of the new type of economic world we are living in, with regulation being valued as the primary obstacle in front of long term growth. Due to this kind of philosophy, most of the world and of course especially the United States, fundamentally ever since the Reagan years, have been cutting down on regulatory practices in their economies. This form of financial liberalization was once more, as it was in the past, one of the fundamental causes of the crisis. However, it must be mentioned that even though there was a certain amount of liberalization in the economy in the United States and throughout the world, there was also what can be called “de facto liberalization”, due to the birth of new financial concepts and institutions in the system, which did not yet have proper regulatory systems in place to manage them (Reinhart et.al, 2008). This can be viewed within the light of Regulation Theory’s crisis analysis, with new institutions arising that do not have direct connections with the existing mode of development.

However, this has downsides that are more difficult to predict than it might be believed. The financial sector is, as it has been said, a very important and, consequentially, a very vibrant sector that attracts many people. In such a high

stake, fast moving sector, it is not surprising to find that people tend to cut corners and try and find new and easier ways to succeed (Goodhart, 2008). Sadly, this has also been further strengthened by a cultural fascination with wealth and power that has of course been prevalent in human history for centuries, which has led to arcane, almost gambling-like approaches to modern economy, and the invention of new technological methods of facilitating actions in the market. These have caused several brand new vulnerabilities in the system as a result (Reinhart et.al, 2008). To quote from Ross Marrow:

> New financial instruments and institutions were developed or re-engineered by academics, bankers, insurers and fund managers to boost income, hedge financial and monetary risks, evade regulations and hide or pass on risks to 'less savvy' clients or the state (Morrow, 2010, p.3).

As a rule of the thumb, one the most basic concepts in financial lending is to be certain that the loan has a high chance to be paid back. Different countries use different methods to guarantee that banks are not entering into risky practices with loans, and such was the case in the United States. However, perhaps owing some part to the political and sociological history of the country, these methods often posed greater problems, such as anti-immigrant policies or racism, in which a bank would withhold credit from a person based on factors that were not completely related to the person's economic well-being.

Truthfully, well before the economic crisis hit, these policies started to change. Unfortunately it was not all for noble reasons, and soon enough, a concept called subprime lending was born, which had been introduced in the previous section already. In greater detail however, subprime lending, in essence, is the policy of offering loans to persons who simply may not be able to pay these loans in the future. To make up for this risk, subprime loans generally have less favorable conditions for the loan taking party, such as a higher interest rate.

Of course it would be dishonest to say that this was a bad economic model. Allowing a larger percentage of the population access to the loan market was an

improvement. However, as time went on, subprime lending standards started to deteriorate as well. As the crisis began to surface, in fact, it was discovered that financial firms were simply giving out credit to applicants without doing any kind of background check whatsoever. The situation got worse as these subprime loans started to constitute a larger and larger percentage of the financial market. This was further enabled and reinforced by another financial innovation, securitization.

3. 2. 4. Securitization

Securitization is an admittedly complex financial technique that has become more and more prevalent in the last few decades.[8] A security, in financial terms, is simply the term used for an asset or contract that has a value and can be traded. Stocks, bonds, options, futures and rights to ownership are all forms of securities. Securitization, as can be inferred, is the method of taking an asset or a group of assets that is illiquid and transforming them into securities. The most common example of securitization is a mortgage backed security, and it is also the most important type for the purposes of this thesis and the narrative of the crisis in the United States.

The process which involves "securitizing" an asset is a complex one. In the most basic form, there are two steps. In the first step, the originator, for example a bank, decides on the specific assets that it wants to remove from its balance sheet to securitize. These assets are then given to an issuer, who pools these together based on a variety of factors. In the second step, this issuer divides this pool and turns them into marketable securities and sells these to investors. The investors receive payments based on the cash flows that these generate. The originator creates the loans and collects the payments from the original borrowers, the borrowers that were involved in the mortgage contract, and then passes these on to the issuer.

[8] An easy to understand graphic regarding the concept of securitization can be found in the testimony of Sheila C. Bair, Chairman of the Federal Deposit Insurance Corporation on Possible Responses to Rising Mortgage Foreclosures before the Committee of Financial Services, in the U.S House of Representatives, April 17, 2007; in the Federal Deposit Insurance Corporation's website.

The effects of securitization are three-fold. Firstly, it allows the bank to issue mortgages (or any other form of credit), without having to wait for the transaction to be completely over, for example until the entire debt is paid back. Also, as the bank is able to clear out its balance sheet and get money directly for these loans, it has greater opportunities and flexibility for new investment. Also helping in this endeavor is the fact that as a result of this, the banks have lower minimum capital requirements, as they do not hold on to these assets.

Meanwhile, the issuer, by going through a very similar transaction the bank did in the first place, has the ability to, in essence, give loans and credit just like a bank would be able to, in the duration circumventing certain regulations that make it harder for the credit market to engage in certain policies. In addition to this, the issuer also benefits from the disconnection that arises between the assets and the originator. A securitized asset is rated, by credit rating agencies, independently of the originator. What this means is that a bank which has a lower, riskier rating can create loan agreements and securitize them and this securitized assed can have an AAA rating instead.

And lastly, investors also benefit from the concept of securitization in that they are able to invest into assets that may have been impossible for them to invest in. In the case of mortgage-backed securities for example, the investor may not be able to buy into a large pool of mortgages, however when securitized, the fact that they can now purchase smaller shares in this pool means that investment is possible.

What seems very obvious in this scenario was missed by the heads of the financial sector, however. As the banks simply got further and further incentivized to give out credit and mortgages, even profiting from every single one that they issued due to securitization, and as subprime lending became a more common model, many mortgage contracts started to be signed by banks that were, in essence, impossible to ever be paid. However, in most situations even the banks

were not aware of this factor, as it had been mentioned before, many mortgages were simply being given over the counter, as it were. Nonetheless, even with the qualities of the mortgages decreasing and the number of mortgages being lent out without the banks' direct knowledge of their quality increasing, banks still encouraged their executives to seek out and exploit the opportunities that the securitization concept made possible. It is important that this situation should be viewed in accordance with the explosion of the sector and the deregulation that followed (Erkens, Hung, & Matos, 2012).

There has to be some amount of credit given to the investors for their immoral ingenuity, however, for obviously not all the mortgages that were issued throughout this period were due post-2007, since this method had started to gain speed in the mid-1990s. Thus, there had to be a way for banks to be able to make subprime loans and somehow market them to the investors without losing too much profitability. The answer to this dilemma was found in a new development in pooling assets together called tranches (Jobst, 2008).

In this method, the bank would essentially bundle a variety of mortgage agreements or different loans together and offer them to the investors this way. The investors would then, based on the amount of money they were willing to put forward, take shares in this new asset. The development was that these shares, or slices, called tranches from the French word for slice which is tranche, would be associated with differing levels of risk and sold separately. In this situation the tranches with the highest risk are paid last, but they are also smaller investments that give much greater returns, while the larger investments are paid earlier but give a comparatively lower return, thus providing a quicker flow of money for all parties involved apart from those who invested in the riskier tranches.

In a very similar fashion to the rest of the securitization concept, this method provided the banks with instant reimbursal of the loans they had made in the first place as well, plus additional fees as the investors got their shares re-paid. Thus,

quite similarly, the quality of the mortgages the banks were pushing forward lost importance, as the banks were fundamentally getting paid by quantity instead of quality. It is perhaps important to note that there were nonetheless methods the financial system used to assess the values of these pools and the risk that was involved in them, sadly, after the crisis the formula used for these analyses turned out to be wrong, in an almost tragicomic way, as when the fact that the higher risk tranches especially were having payment issues became apparent, many securitized assets were sold rapidly by those who had investments in lower risk tranches, with the investors thinking that they were much more dangerous than investors were led to believe (Salmon, 2009)(Jobst, 2008). This has largely to do with the bad judgment of Credit Rating Agencies.

3. 2. 5. Credit Rating Agencies

At this point it would not be too out of place to wonder how this entire financial mess, which seems to only be related to the United States, got so out of hand as to affect the entire global economy. For that, part of the focus has to be on credit rating agencies. Post-crisis, these organizations have been blamed by many different sectors, as it shall be seen in the following chapter, including even the Greek parliament (Kaçar, 2011). Most recently they were once again in the front pages after Standard & Poor's downgraded the USA's credit level to AA+ from AAA due to the massive debt that the United States has gathered over these past decades and the political gridlock the country was facing, and then when they downgraded Turkey's rating, causing an unfortunate response from the country's Prime Minister (Yıldız, 2012).

Credit rating agencies fulfill a variety of roles in the modern economic system, but their primary role is to provide an assessment on investment and creditworthiness of an entity, such as a country, or financial obligations issued by an entity, such as bonds or stock. They do this by assigning grades, usually differing along the lines of investment worthiness, with ratings above a certain grade

qualifying that the entity or obligation in question is more trustworthy, while ratings below a certain grade are defined simply as “junk”, or more subtly as speculative and high yield, considering the fact that the financial system, in some ways, resembles gambling in that the higher risk investments give higher returns. The most well known and certainly the most influential credit rating agencies are Moody’s, Fitch and Standard & Poor’s, responsible for the vast majority of financial ratings (Hunt, 2008). Also of interest is the fact that the majority of these assets which the agencies have rated, for example in the case of Moody’s, were given the highest possible credit rating, AAA, which is indicative of the problem at hand (Morrow, 2010).

Credit ratings agencies are quite controversial organizations for a variety of reasons that range from being paid by the companies they rate (which is not an allegation but their primary business model), to being slow in their assessments to causing unnecessary panic by their downgrades, some of which shall be mentioned in the upcoming chapters (Morrow, 2010). In the context of the United States economic crisis however, they were instrumental through the ratings they gave to the pools that were mentioned earlier. These undeserved high ratings given to these financial assets drew many investors to purchase and otherwise be involved in these assets at a greater level and frequency than they would have. Conversely, when the crisis began to surface and the fact that these high rated assets were actually riskier than they should have been was evident to these investors, the market slowed to a crawl as even the most dependable asset was suddenly seen to be dangerous, due to a loss of confidence in the rating system as well as the assets that were rated. As an example, of the aforementioned AAA rated assets by Moody’s, a grand total of 34,346 of them were downgraded during and following the crisis (Benmelech & Dlugosz, 2009). All this is seen as one of the primary reasons that the crisis spread so far and wide through the financial system globally (Hunt, 2008).

Credit rating agencies shall be analyzed in greater detail in the following chapters, but, suffice to say, they were blamed by many a foreign country and many an analyst in the years following the United States Credit Crunch for facilitating the circumstances that led to these countries own specific set of crises. Nonetheless, it would be naïve to assume that they were the sole institutions responsible for this crisis.

3. 2. 6. Lack of Government Regulation and the Shadow Banking System

In fact, even in the United States, the government agencies Fannie Mae and Freddie Mac, two enterprises that were supported by the American government which, in essence, buy and insure mortgages, went essentially bankrupt and had to be taken over by the government. Lack of government regulation before and intervention after the crisis were also hot topics in American public life for many years, continuing even to this day, however, these are somewhat outside the topic of this thesis as it delves unnecessarily into American politics.

Suffice to say, however, that American politicians of the last few decades were almost unanimously supportive of increased home ownership, even pressuring the aforementioned government enterprises to take on as many mortgages as they possibly can to increase the ease of the housing process. There has also been plenty of financial regulation, or perhaps it is better to say de-regulation, amongst them the removal of the separation between commercial and investment banks and the historical low levels the federal interest rate dropped to, of which the latter is often shown to be one of the more prominent governmental mistakes in the crisis (Morrow, 2010). The low interest rates are also often attributed to the dot-com crash, the American economic crisis in the beginning of the 2000s[9], and the September 11 attacks, as a way of guaranteeing the economy would not go into a period of deflation. It is imperative to also mention that

[9] The dot-com crash came about as a result of the bubble that the growth of the Internet created in the world economy, named due to the fact that many companies saw an almost instant increase in share prices before the crash just by adding ".com" to their titles.

following the crisis, government bonds that kept more or less the same interest rates got massive amounts of investment; for they were the safest commodity in the market, so it may be correct to mention that at least in this situation, government action was not in fact a cause.

Also of importance is the fact that government regulation in regards to credit ratings agencies was fundamentally subpar. For several years these firms and institutions were almost not regulated at all. Closer to the financial crisis certain steps began to be taken, however, ironically, by the time the regulatory system actually started working, there was only a month to go before the crisis would start. Nonetheless, following the crisis, regulation has taken a turn for the better but it still is in the form of perfecting transparency and the incentives these agencies get to give more accurate ratings, instead of aggressively going for change in this arguably problematic sector (Hunt, 2008).

A final important factor in the crisis was the existence of a form of banking called “the shadow banking system”. The shadow banking system is used to describe institutions and corporations who, in financial and investment terms, do the business of banks, however, are not actually banks in a commercial sense, for example they cannot be used to deposit money. Due to this difference, they are not regulated in the same standards as regular banks, which allow them to take more risks. This system was criticized heavily by United States Secretary of Treasury Timothy Geitner in a speech he gave very soon after being nominated to this position, and is considered to be another prominent area in which lack of government regulation helped speed and strengthen the crisis (Geithner blasts 'shadow banking,' demands more power for regulators, 2010).

There have been other factors that contributed to this economic crisis, such as the concept of credit default swaps or the role of rising unemployment due to new technologies, lower demand and inequality in the spreading of wealth in the United States, however, these are either minor, severely financial or are

unnecessarily related to the American example and not the greater scope of this thesis, thus, there is to need to further analyze these subjects. All of the factors mentioned by this point are also sufficient enough to show that the crisis arose from a complex system of interconnected problems which can more or less all be placed within the neo-liberal model, some of which are almost surprisingly simple and, as harsh as it may be, find their roots in delusional ideas and concepts about the market. Nonetheless, this does strengthen the thesis's proposition that the interconnected institutional forms that lie in the sphere of this specific model of development are the actual cause of the crisis.

Sadly this shall be a continuing theme throughout the rest of this thesis, as the "bigger, flashier" story of Greece, compared to some of the other countries in the world who have also experienced crises, also involves situations as complex as these. However, this should not be so surprising in a crisis that was dubbed the second Great Depression by many when it first arose.

3. 3. The Aftermath of the Crisis

After almost four years following the start of the crisis, it might perhaps be possible to say that luckily, the eventuality that this crisis may grow to be one as devastating as the Great Depression did not really take place, due to a remarkable move from Central Banks almost throughout the world, certainly throughout the Western one. As bigger and bigger banks started to report big losses in their mortgage securities, (the expected number by IMF being 1.5 trillion dollars when the crisis finally settles down, which has not yet happened even at this time) governments started "injecting" money into the systems by buying up the debt and problematic assets that the banks had, to the amount of 2.5 trillion dollars. This bail-out, as it has come to be known, is the single largest monetary policy action in world history. Nonetheless, it must be kept in mind that despite the fact that the crisis does seem to have contained somewhat at the moment, most crises that cause output declines tend to brave through that trend in around two years on

average (Reinhart et.al, 2008). Thus, even though some negative aspects of the crisis have started to be mitigated, this does not necessarily mean the crisis itself is completely over, however, at least within the United States example, the devastation certainly seems smaller. Nonetheless, in the following chapter Greece will paint an entirely different picture.

One of the significant consequences of the crisis has been incrementally increasing unemployment, as hundreds of financial firms throughout the world went bankrupt alongside other businesses. Due to the increased house ownership through the corrupt mortgage system, hundreds of thousands of foreclosures in the United States have occurred alone, images of which helped characterize this sad period in world economy. Both of these concepts are likely to make their effects felt throughout the years as well, as unemployment rises and housing price fluctuations extend for much longer than output declines do (Reinhart et.al, 2008).

The massive bailouts following this period of crisis led to demonstrations everywhere around the world as the public were forced to pay for the bad judgment of the financial sector. Growth almost came to a halt in the West, with average numbers clogging somewhere between zero to three percent, as the crisis took its toll (GDP Real Growth Rate 2009 CIA Factbook, 2010). In addition, government debt rose up even higher than it has been in the past decades, as governments around the world had to step up to aid the failing institutions in their countries, yet another sign that this crisis was one of a structural crisis as regulationists would call it (Reinhart et.al, 2008). And of course perhaps most importantly, the crisis set off other crises that followed its model and effects throughout the world, such as the one in Iceland that ended up causing a country to go bankrupt, or various others in countries like Greece and Ireland, once again fitting in very well with the regulationist definition of a structural crisis, in the sense that this crisis has spread far and wide from its more “modest” beginnings within the borders of the United States, despite, as mentioned before, the crisis being international in scope even before it reached its peak.

Also of note is the belief amongst certain circles that this crisis was one of significant change in the economic system. There are several reasons that support this belief, which would clearly lend further credence to the assumption that this crisis was a structural crisis, as it would mean that this crisis was not one that could be escaped without severe changes in institutional forms. Primarily, the collapse of the two U.S. giants of Bear Stearns and Lehman Brothers and the sale of one and the allowed failure of the other by the U.S. government is seen as paramount. This is due to the fact that these two companies were amongst the biggest leaders in the field of the securitized model of finance, and thus their fall and failure is a severely significant event (French, Leyshon, & Thrift, 2009).

In addition to the complications amongst companies of this caliber, who were poster-children for this new type of financial economic model, other concepts and institutional forms, to use a Regulation School term, have deteriorated or started the long path on their eventual decline. One of the most vital examples of this trend is the fall in the hedge funds. Hedge funds had enjoyed an incredible surge in profits from 1990s until the onset of the crisis, but directly following these events they have produced a 30% fall in value of assets (French et.al, 2009).

Furthermore, another development which shows that there is a sizeable shift in the system is that the U.S. government, alongside governments in a variety of other countries, has intervened in the financial markets in record levels, as mentioned before in this very chapter. This intervention has even taken the form of nationalization of certain institutions through the Troubled Asset Relief Program bailout. All of these actions show a form of departure from the main concepts of the neoliberal state and economic system, considering the level in which the American state had to intervene in the markets, which shows yet again that this crisis needed departure from existing institutional forms for its solution. In addition to these factors, the loss of confidence that was previously mentioned in the credit ratings agency system and the rising complexity of the overall financial system are

other reasons as to why this crisis may cause major upheavals in the coming years (French et.al, 2009).

This analysis into the particulars of the crisis in the United States is significantly important due to the fact that not only the crisis was born out of these financial practices that were predominantly based on Wall Street, but also because the entire financial system of the world and indeed, the countries that this thesis will look upon, are connected to Wall Street. The United States example greatly facilitates the explanation of the notion that the financial system in the world these last few decades has gotten progressively more corrupt, as well as showing inherent problems within the neo-liberal system at large, in line with analysis that suggests that this crisis cannot be viewed as an American crisis alone but as a global crisis of neo-liberalism.

When looking at the crisis that arose in the United States in 2007, it is possible to see certain correlations between the events that took place and Regulation Theory's ideas of a structural crisis. To go point by point, the initial way to differentiate what is a structural crisis and what is not was whether or not the rate of profit could go back up by itself following the crisis. This was certainly the case, at least in the origins of the crisis in the United States, considering many companies needed to be bailed out by the government or have their risky assets bought or guaranteed, as well as many other differing measures having to be adopted.

Secondly, Regulation Theory suggests that the crisis spreads far and wide and brings many institutional forms under doubt. This can be seen in the American example as well, considering how far and wide the crisis has spread, which is something this thesis will focus more on in the following chapters. However, it should be sufficient to say that from the onset of the crisis until it is slowing down in certain areas, many institutional forms, for example, the financial system or the regulatory systems in neo-liberal governments were in fact brought under criticism.

Finally, the third point of analysis is one of self-sufficiency in the economic sector in regards to intervention not being necessary from other areas of the society, as the economic institutions are in contradiction with one another and in a simpler sense in contradiction with the realities of the system. This is an area where there a certain amount of dispute is necessary, considering the financial system has not needed any fundamental changes to get out of the crisis. However, certain main ideals of the neo-liberal state such as minimal state intervention in markets after the environment in which they can properly exist has been created have been completely disregarded as it became apparent that the economy would either crumble or recovery would take much longer amounts of time to be realized. Thus, it can be theorized that, while not completely, this condition has been partially fulfilled by the 2007 crisis as well, bringing it very close to, if not completely within the boundaries of, what Regulation Theory calls a structural crisis.

In addition to this analysis, Regulation Theory can also be employed to analyze the crisis in the United States through a brief look at its regime of accumulation and mode of regulation. What must be mentioned first of all is that even though the crisis saw massive monetary action by the government, the American system has remained in relatively the same state it was earlier on. The private sector debts and losses were transferred over to the public sector due to the aforementioned bailouts such as the TARP bailout, and most of the causes of the crisis from a financial aspect remain untouched, such as credit ratings agencies, the concepts of credit default swaps and securitizations and even the lack of regulation.

While this may seem to suggest that Regulation Theory may not be sufficiently applied to the American case, however, the belief of this thesis is the exact opposite. The American crisis, no doubt, arose from systemic issues, predominantly within the credit money relationships and state intervention in the economy. A severe lack of regulation and visible corruption in the social fabric, as witnessed through the large number of people who abused the growing housing and subprime mortgage markets, were also visible. The reason for the minimal

change post-crisis in the system is that the American problem goes deeper than an economic issue, thus, while it seems as if it is contrary to regulation theory analysis, proves it even better.

In 2011, just a few years after the crisis, the American system went through another minor shock. This was caused as a result of the country reaching its debt ceiling. The debt ceiling in the American system is a level that the government assigns beyond which the Treasury cannot borrow. However in 2011, following the financial crisis, the fact that America reached its debt ceiling had a more severe consequence, it also meant that the country could not pay interest on its debts, meaning it would have to default. The reason that this development is mentioned in the thesis can be found in the fact that the American government waited until the very last day to raise its debt ceiling, due to political arguments between the parties, and as a result, Standard & Poor's eventually downgraded the country's credit rating for the first time in its history. The truth of the matter is that the structural problems in the American system are based on its political sector as much as its economic sector and these two areas feed each other. This is why there has not been massive change in the American system, due to the system being locked.

This forms a problem area for the theory. A brief glance into the particulars of the American system points to the fact that the crisis that the country experienced constituted a structural one, as the system did indeed need massive amounts of intervention to return to normal as well as significant change as far as regulatory bodies are concerned, considering the crisis arose largely due to the financial sector being far too free to do as it wished. In addition the crisis did indeed spread from its origins in the financial sector to other areas of the economy, such as almost completely destroying the American automobile industry, which had to be saved by government intervention as well (Amadeo, 2012).

Nonetheless, the post crisis environment did not adhere to Regulation Theory perspectives fully. As mentioned, change in the American system remained,

according to some, somewhat inefficient and ineffectual (Morgenson, 2010). Of course it must be mentioned that the form this change took, the Dodd-Frank Wall Street Reform and Consumer Protection Act, was the single largest regulatory reform in the United States since the reforms that followed the Great Depression. However this does not change the fact that the bill did not change certain problematic areas such as preventing “too big to fail” banks from arising or protecting consumers from abusive financial products such as the aforementioned subprime mortgages or pitfalls in the concept of securitization.

Thus while the American crisis certainly shows signs of a structural crisis under Regulation Theory analysis, it could be argued that the post-crisis period does not fit the predictions of the theory completely. However, as was mentioned before, this is indeed partially the result of the characteristics American system and its resistance to significant change, as the aforementioned Dodd-Frank Bill is indeed a large reform package, despite not completely addressing some vital areas. In addition, following the Libor scandal of 2012 increasingly sweeping regulation is now being called for by many different actors within the system, both within the European Union and the United States, thus, it could be argued that the period of restructuring following the crisis has not ended yet, and that it is too early to suggest that the American experience does not fit a Regulation Theory perspective completely.

In the following chapters the thesis shall focus upon two countries, Greece and Turkey. As mentioned previously, the placement of these countries as the periphery in relation to the center that is the United States makes them vital as representatives of the existing neo-liberal system and the crisis it is going through in recent years. The Greek example is vital, for Greece best shows what lack of government regulation in financial markets and in the economy can do, as it shall be seen in the following chapter. Amongst all the countries that suffered in the global financial crisis, Greece has experienced perhaps the most volatile crisis (possibly with the exceptions of Iceland and Ireland) and their experience goes a long way to

show that in this crisis, the mode of regulation has failed significantly alongside the regime of accumulation, for alongside an unsustainable financial model, the Greek governments showed great ineptitude and lack of foresight.

The other country of analysis, as mentioned, shall be Turkey. The Turkish example is arguably unique amongst many countries in that Turkey has managed to avoid a catastrophic scenario similar to other countries, despite the fact that its economy was perhaps just as much dependant on foreign investment as other examples. To investigate the reasons as to why this has occurred, the thesis shall go back to the 2001 Economic Crisis Turkey experienced, and look at the regulations that have been put in place following this event. The Turkish example shall be used to show that had these countries all implemented strong forms of regulation in the financial system, the crisis would have had less of an impact.

Nevertheless, this brief foray into the American economic world, neo-liberalism and deliberations regarding the financial institutions and systems is vital, considering that these institutions and systems are spread out across the world, thus when analyzing the crises of Greece and Turkey, it is impossible to separate them from these concepts. Nonetheless, compared to the gloomy and hard hitting events of Greece, the United States gives a clearer picture of the crisis and allows for easier analysis. Sadly, Greece is anything but clear.

CHAPTER 4

THE GREEK GOVERNMENT-DEBT CRISIS

On April 4th, 2012, at the early hours of the day, a Greek pensioner called Dimitris Christoulas shot himself, several meters away from the parliament building. He was 77 years old, and he had left a suicide note on himself, stating that the government has taken everything from him that he needed to live a dignified life, and as a result he had opted instead for a dignified end. His action caused demonstrations which soon turned into a serious fighting between the crowd and the police, with rocks, petrol bombs and tear gas flying through the air (Lowen, 2012).

It is certainly a hard hitting event, and certainly a hard hitting entrance to a thesis chapter. A certain concession has to be made early on: in periods like the Greek Crisis, the commentary tends to get much more dramatic and simply reading through newspapers and economic analysis can make one believe that the world as we know it is about to end. Thus, it is not unreasonable to think that these statements should always be viewed with an inquisitive mind.

Despite that “disclaimer” however, the events that have been occurring in Greece in the last few years is no laughing matter, and it is difficult not to admit that the dark language used by reporters is sometimes justified. After all, it is not every day when newspapers bear articles comparing political developments in one country to the birth of Nazism in Germany or a political statesman comes out saying they are in favor of blocking their borders with landmines (Hatzis, 2012)(Lowen, 2012).

And that is not even all. The Greek Crisis is not shocking only in the words spoken by politicians or the articles written by economists and journalists. The

reality of the situation, the statistics and the actions of the people living in Greece do not paint a very different picture. Protests and demonstrations are by now so common in Greece that they are not even reported internationally. Animosity towards those seen as responsible for the state Greece in now is rising incrementally in the country, with even a simple football match against Germany in the Euro Cup suddenly being symbolic of something greater.

In light of all of this, an analysis of Greece is certainly very difficult; of course it is nonetheless much easier compared to a prediction of where the country is going. In spite of this fact, however, an analysis of Greece is invaluable for this thesis. While the United States crisis is perhaps more clearer in being the origin of the recent troubles the world has been experiencing, Greece exhibits a much deeper crisis, without a doubt a structural crisis, in fact. From the eyes of the Regulation School it is not very difficult to come to the result that Greece is going through a crisis within its regime of accumulation and mode of regulation. The way it has spread out through the system, or the fear that it will bring down the European Union, the methods of which it has attempted to be fixed, all bear strong signs that point to this hypothesis.

In addition, it is imperative to mention the fact that the Greek crisis is also monumental with regards to the country's position in the neo-liberal system as a peripheral country. In contrast to the United States' experience, which, of course, is influenced by the neo-liberal system also but more so by the fact that the country is central to the system, Greece shows that the neo-liberal model that the country has been a part of for the last few decades has not helped mitigate negative tendencies in its economy at all, if not even exacerbating the situation.

Furthermore, it must be kept in mind that while Greece is a peripheral country in an overarching neo-liberal system, it is also a peripheral country with regards to the European Union. In fact it would not be wrong to say that this European Union integration is what pushed Greece to adhere to a more neo-liberal

model, of which the introduction of the Euro was a critical part. This development, as will be seen in the following sections of the chapter, has negatively affected the Greek economy and is one of the fundamental reasons why this crisis has been so significant; as not only did it lead to low growth, but also to “sharper labor competition”, the prevention of devaluation (which was particularly important for the Greek case) and the enabling of certain financialized accumulation strategies, which led the problems within the Greek economy to be camouflaged for a bit longer while deepening them in the process, due to rising public and private debt caused by the more favorable interest rates, for example (Becker & Jäger, 2011).

Thus, in this chapter the thesis shall focus on analyzing the events in Greece, as due to the relationship that Greece enjoys as a periphery to both the neo-liberal system overall and its peripheral position within the European Union, it is a very fitting tool for analyzing both the European Union’s neo-liberalization process and the neo-liberal system’s effect on peripheral countries such as Greece. This analysis will be done through a regulationist perspective, attempting to prove that the crisis Greece experienced is indeed a structural crisis and that the fault lines that caused it lie in the discrepancy between its mode of regulation, regime of accumulation and the failure of its model of development. For this purpose the chapter shall involve a closely detailed examination of the events in Greece and draw parallels between the Regulation theory assumptions and the realities of the crisis itself.

The Greek Crisis is similar to the American one in that it is of course rooted very much in the past. Nonetheless, the explosiveness of the crisis shall allow the analysis to look at it as it happens and expand upon the past and the particulars of Greece following the progression of events. Thus, this chapter will be separated into sections that deal with certain periods of the crisis, finishing at the current events.

4. 1. Timeline of the Greek Crisis

The Greek Crisis is very similar to the American one in the simple fact that much like the American crisis, the Greek crisis arose following a period of relative stability. In fact, it could be said that the Greek economy was perfectly fine up until very recently, after their miraculous growth following the Second World War, between 1950 and 1970, dubbed the Greek Economic Miracle. In fact, even up until 2006 Greece was still growing at a respectable rate, above the other Eurozone economies, peaking at 5.5%.

It is because of this fact that a sufficient beginning to an analysis of the Greek Crisis is January 1st 1999. It was at the turn of the New Year that the new currency for the European Union, the Euro, was introduced. Greece officially joined the Euro at 2001, in what would later be said in less than ideal circumstances. This will be further investigated in the chapter, alongside the developments within the period starting from Greece joining the Euro until the economic crisis happened.

Suffice to say, the Greek economy seemed perfectly fine until 2009. As said before, there will be a more in-depth look to this period later on in the chapter, but it should still be mentioned that there were already doubts about certain economic statistics given out by the Greek governments in this period as well. Eurostat, a European Union organization whose main goal is to provide statistical information to the institutions of the European Union, had repeatedly stated that statistical numbers from Greece were unreliable, and often the figures that they were given turned out to be false in the years that followed.

It was in 2004 that these statistical anomalies reached their peak, with the then finance minister George Alosgoskoufis admitting that the country had not fulfilled one of the basic requirements of joining the Euro, namely that the budget deficit of the country should be below 3%. Surprisingly enough, this “shocking” revelation was met calmly by the European Union, with economists stating “Quite a few member states did something similar … to join the Euro as soon as possible.

Greece has just gone a bit further (Howden & Castle, 2004).” It should also be mentioned that this entire point was criticized and defended as being false by certain economists and writers, but nonetheless, this does not change that this and this kind of suspicion about Greece’s economy did not help market perception in the years to come.

By 2009, this situation was still ongoing, which led to sudden massive, unexpected economic problems, as accurate predictions about the Greek economy could not be made. It was around this period that the credit rating agency Fitch downgraded Greece’s debt rating as the country’s debt reached its highest level in history at 300 billion Euros. Nonetheless, it was still thought that this would only be a domestic problem and was not a major issue for the European Union. Based on a BBC report, Finnish Prime Minister Matti Vanhanen was eerily accurate, however, when he said that “the most important thing was that there were no surprises lurking behind Greece’s statements (Greece's Debt Reaches 300bn Euros, 2009).”

Unfortunately, he would be proven correct in his suspicions. Following his election in February 2009, George Papandreou declared that the previous year’s budget deficit numbers, which were stated to be 5% of the GDP, were instead likely to be 12.7% of the GDP. This figure would later be revised by Eurostat to actually be 15.6% of Greece’s GDP. All these events resulted, as could be expected, in a sudden loss of investor trust in the Greek economy. Almost instantly following this, Greece’s ratings were cut once again, first by Fitch once more, and then followed by Standard & Poor’s and Moody’s, eventually being brought down to full junk status. The crisis was finally coming into full view, with the same discourse that would be repeated in the years to come and to this day arising: “Will Greece’s failures bring other European nations down as well?”

It is important here to mention that this was a very real possibility, as it still is. This will be examined in closer detail in the following sections within the chapter, but suffice to say that this spreading of the crisis from Greece to a wider area

provides one of the strongest links to Regulation Theory's view of a structural crisis. In addition, as had been mentioned before, ranging from the government's influence in the economy through statistical faux-pas to the problems within the credit and monetary regimes, Greece was already suffering from multiple breakdowns in its mode of regulation.

Following the downgrades, the "unprecedented" austerity measures started to be taken as the question of Greece leaving the Euro, and thus the European Union, was being brought up for the first time. These measures came hand in hand with the first of many bailout loans that Greece would have to take in the following years. The bailout loan necessitated the austerity measure, as Germany was the last country in the European Union opposed to the bailout package and it put forward the austerity measures as a condition. The bailout would be a €110 loan with a relatively higher interest. Almost tragically, credit rating agencies responded to these developments by lowering ratings to an even lower junk status (Lesova, 2010).

The austerity package released in May 2010 aimed to raise €38 billion Euros by 2012. It involved public sector payment cuts, bonus removals, pension payment reductions, new taxes on company profits, laws making layoffs easier for companies and government agencies, the average retirement age being increased, an increase in the VAT (Value Added Tax), and thousands of privatizations. Unfortunately, these events also marked the first of many massive protests that the country would bear witness to in the coming years. The protest on May 5 turned into a clash between the protestors and the police, where 3 people lost their lives.

It is important here to make a side note and discuss a popular myth propagated by many members of the public discourse, be it the media or politicians. It is a well known statement that "Greeks did not work", especially before the crisis. While it is true that Greece did enjoy a rather massive public wage increase in the latest decade, much more than any other European country, the fact remains that

before the crisis hit Greece was the second hardest working in the world, with long hours, lower vacation days and a higher age of retirement, only being surpassed by South Korea, based on a report published by the Organization for Economic Co-Operation and Development in 2008.

It was hoped that the bailout alongside the austerity measures would be enough to get Greece out of its economic problems. However, in 2011, it became apparent that the situation in Greece was even worse than it was believed. Further austerity measures were suggested after a bi-lateral investigation by the EU and the IMF, which was once more followed by Standard & Poor's downgrading Greece's sovereign debt this time to CCC, the lowest in the world. The austerity measures were passed in June 2011, this time hoping to raise €28 billion over five years. This was, once again, followed by another bailout from the European Union, this time to the level of €109 billion, based on a BBC report (Greece Aid Package Boosts Stock Markets, 2011).

The June 2011 austerity measure was more controversial than the May 2010 one. Privatizations increased, alongside taxes for the wealthy. New increases to the VAT were added, in addition to several brand new taxes, and pension payments were reduced once again. These austerity measures led to government officials making statements against them, one of which was the Finance Minister Evangelos Venizelos, who said that his "country had been blackmailed and humiliated and made a scapegoat for the EU's incompetence (Greece Says Debt Talks to Avert Default 'Productive', 2011)." Furthermore, once again, massive protests and a 24 hour strike occurred throughout Greece. In addition, a UN representative stated that "Greek austerity measures could violate human rights (Lumina, 2011)."

In the following months more action was taken by the EU. In a summit that occurred on July 2011, it was decided that loan repayment periods for Greece would be extended from a minimum of 7 to 15 years and interest rates would be lowered across all the loans to 3.5%. This came together with another support

package to the level of €109 billion, and a demand for more privatizations within the country. On October, Eurozone leaders and the IMF, alongside banks, came to an agreement to write off 50% of Greece's debt.

However, this decision had an unfortunate side effect. The other European Union Nations, predominantly France and Germany, insisted that Greece continue on with the privatizations and implement yet another round of austerity measures. This time however, Papandreou decided to have a referendum to decide on the deal. The Greek cabinet backed him completely in this decision, which created one of the major fault-lines between Greek and European relations, due to the referendum suddenly sending financial markets tumbling down (Greek Cabinet Backs George Papandreou's Referendum Plan, 2011).

Despite the sudden shock and surprise effect however, the referendum did not take place. This was due to Germany's Chancellor Angela Merkel and France's President Nicolas Sarkozy both declaring ultimatums that stated that unless the referendum supported the new measures, money that Greece needed to get its hands on through the bailouts would be withheld. This led the opposition, the New Democracy Party, to announce that it would back the agreement and thus, as a result, the referendum was called off. Nonetheless, this process increased animosity inside Greece towards the European Union (Donadio & Kitsantonis, 2011).

In November, just a few weeks later following these events, Papendreou resigned, and a new interim leader was chosen to lead the country through the period ahead until the elections, to make the process of implementing the European Union demands smoother. This leader would be Lucas Papademos, the former vice president of the European Central Bank and a chief economist in the Bank of Greece. His selection was criticized by certain sections of the society yet again, predominantly due to the fact that he was seen as a European Union supporter, and that he was brought in power to let the EU control Greece easier

(Smith, 2011). Despite this however, polls after he assumed office showed that the general public favored this period of technocratic rule.

The new budget proposed by Papademos at the end of the year seemed promising, with the deficit starting to be reduced and austerity measures helping to bring Greece's economy back on the right track. Disappointingly however, these were also hand in hand with the recession getting even worse. Greece's GDP fell by 6.8% in 2011, unemployment rose to the 20% mark, wages fell, output was reduced and inflation arose. The forecast for the following year was not positive either in the European Union's view, with inflation expected to rise and GDP expected to fall (Interim Forecast, 2012).

Following the beginning of the leadership of Papademos, the European Union announced that the following governments must sign legally binding letters stating that they will be honor-bound to follow the agreed upon EU-IMF austerity plans. While Papademos was in favor of this signing, many politicians and members of the public in Greece were shocked by the proposition, which included austerity measures that would last until 2020. This was backed by statements from several economists and even IMF officials, stating that more austerity measures would hurt Greece in the short run and there needed to be time to let the changes take effect. Prominent economists such as Paul Krugman strongly criticized the plan and would continue to do so to the current day (Krugman, 2012).

It was around this period that the discussion for an orderly default began in earnest. The suggestion was that Greece would default on its debts while leaving the Eurozone, returning to the drachma. As a result, its competitiveness in markets would rise as its currency's value tanked due to devaluation and investments became less risky, and actual growth could be realized. Nonetheless, a Greek exit from the Euro, "Grexit", as it came to be known, would prove to be catastrophic as predictions showed that Greece exiting the Euro may create losses to the amount of

€1 trillion, and the subsequent exits of other economies that were already in danger, such as Spain and Portugal.

February 2012 began in this dark mood, and it soon got even worse, as Greece declared that unless it got another loan soon, it would be unable to pay government wages. Another bailout was necessary, and as had become custom by this time, it was once again linked to Greece putting forward yet another round of austerity measures. This would be a much more controversial political discussion however, as around fifty members from Greece's leading parties refused the austerity package, causing all of them to be expelled from their parties. In spite of this however, the package passed and a new round of austerity measures were introduced.

The February 12 austerity measures included pensions being cut once again alongside cuts in the health and defense sectors. Holiday wage bonuses were completely cancelled alongside minimum wage being reduced yet again. Laws were changed to make it easier for workers to be laid off and privatizations were speeded up yet again, with gas companies being privatized. Several ministers resigned in protest to the measures. Also, this marked a change in how the European Union viewed Greece that would continue on to this day. As the EU had formed the European Financial Stability Facility[10] and had committed around a trillion Euros through the European Central Bank to protect its banks, the fear of a Greek default had started to be less dominant in discussions. Thus, especially Germany's stance towards the Greeks turned into one of "move forward with the reforms or leave (Inman, 2012)."

As is sadly common to the progress of events by now, this new set of austerity measures were met with yet another violent protest, with reporters, tragicomically, stating that the shocking violence in the city was one that it had not

[10] The EFSF is basically a "firewall", as the term has come to be used, first proposed by the American Secretary of Treasury Timothy Geithner. The European Union has set aside money to be used in case of a Greek default or other economic crises, in which the EFSF will protect the banks and states in the EU with the money it has been given.

seen for a few months. A hundred and twenty people got injured through the fighting with dozens of buildings being set on fire by the protestors ("Buildings Ablaze as Greek MPs Vote", 2012).

Throughout all of this, aid continued coming to Greece. The proposed February bailout was increased by another €20 billion alongside a debt restruction deal in the works which finally came to pass in March 2012. This fulfilled one of the four demands that the European Union had to pass the February bailout money to Greek hands, the other three being the signing of the aforementioned binding letters stating that new governments would abide by the austerity measures, the passing of more austerity measures which were fulfilled in February 12, and a debt sustainability report that showed Greece to have a brighter outlook in the future following these changes. All of these were finally fulfilled in March 9 and it was stated that Greece would now be able to receive the bailout money, with the debt restructuring deal stated to be the "largest restructuring of government debt in history ("Greece 'Meets Bailout Conditions'", 2012)." Nonetheless, this did not prevent the credit rating agency Moody's from declaring that this amounted to Greece defaulting on its debts, and thus Greece's rating was brought down once more. Also of importance is that the debt reduction did not amount to the numbers that was hoped due to money being spent on recapitalizing Greek banks and temporary debt to banks as a guarantee that the restructured debt would be paid. This necessitated a debt rescue plan which would take money out of the bailout. The importance of this plan led the European Union to state that unless Greece accepted it, they would have to leave the Eurozone, once again showing the change in relations between the two sides.

Attention in Greece got turned towards the upcoming national elections, with economy related talks taking a back-seat as more radical parties started to be involved in the Greek parliamentary system, with neo-Nazi right wing party Golden Dawn rising alongside other "new" parties like the left-wing Syriza and the Independent Greeks, another nationalist and populist party. This was not very

surprising as the majority of the Greek public, rightfully so, blamed the troubles the country was in on the corruption that the leading parties in the last few decades had caused. As a result, New Democracy and PASOK lost a considerable amount of the vote, which was what led the elections held on May 6 to prove fruitless, as no party managed to get enough votes to form a government and a coalition seemed impossible.

Another interim leader was selected until the election in June, and with the markets already reeling from the uncertainty of Greece's political situation, it was stated that the party that had come second in the votes on May, Syriza, was in favor of rejecting all austerity measures and even leaving the Euro. In the month to come this ideal would eventually get watered down to a realistically impossible plan in which the Greeks would reject the austerity measures, still get money from the EU, but not leave the Euro. Nonetheless, the now very real possibility that Greece may be leaving the Euro once again fanned the flames of fear in Europe as the aftermath of such a situation started to be discussed once more, with countries like Spain, Portugal and Italy expected to default on their debts as well in case of such a shock to the system.

Luckily for all parties involved, following the election on June, New Democracy won by a few percent of the vote, likely propelled by the sudden fear in the country of a Syriza victory leading them to switching to the drachma and most probably suffering through a decade long crisis as a result, and together with PASOK and the Democratic Left Party, the trio formed a coalition government. Statements from Syriza representatives were generally positive as they declared they would not be involved in the coalition government in any form and would sit at the sides and form the opposition. The reason behind this is the aforementioned fact that the Greek public blames PASOK and New Democracy for the crisis already, and these two parties, to be able to keep Greece in the Euro, are expected to have to pass some strict laws, such as new austerity measures, which will undoubtedly create even more animosity towards them (Chaffin, 2012).

Nonetheless however, the end of the election let Europe breathe a sigh of relief as the Greek withdrawal from the Euro got pushed back and the Greek crisis got put on hold. For now, it seems that the European Union has bigger fish to fry, with a division between France and Germany, talks involving a banking union, greater integration and a Union-wide finance ministry, and much more severe regulation flying through the air. One thing is for certain, however, the Greek crisis is simply not the most important thing right now after the aversion of perhaps a complete catastrophe for the European experiment, but by no means has it gone away.

4. 2. Analysis of the Crisis from a Regulation School Perspective

It is in this situation that this thesis shall focus on the Greek example. The crisis in Greece is still ongoing and wildly different outcomes are still possible, from a Greek default to a departure from the Euro and thus from the European Union, two much brighter outcomes. Despite the unknown, however, there are certain things that are constant. The Greek crisis is indeed a monumental one, such that even though it has come about in one of Europe's most insignificant economies, it still had the possibility to, and almost did in fact, completely destroy the union process of the last fifty years.

A theoretical analysis of a crisis of such wide scope is undoubtedly difficult, however, as it has been mentioned before, Regulation School provides an ideal framework for the analysis of the Greek crisis. Thus, in this section, the analysis shall be based on whether or not the Greek crisis falls within the parameters of a Regulation School analysis, in that the crisis has arisen from fundamental faults within the mode of regulation, the regime of accumulation and the institutional forms that exist within the system. The belief that this crisis was a structural one will also be investigated.

In this effort, this section will be divided into a variety of subsections, namely the mode of regulation, the regime of accumulation, institutional forms and the

possibility of a structural crisis, and differing aspects of the crisis shall be examined in greater detail under each of these topics, going by the definitions and the examples of each of these concepts that has been given in the theoretical background chapter beforehand.

It is important to remember that although Regulation Theory can be used as a tool for system-wide analysis, such as the case of Fordism, it accepts the existence of different systems and subsystems as well, as has been demonstrated earlier once again. In this fashion, it must be mentioned early on that in the opinion of this thesis, there is no specific mode of development to talk about in the Greek case. While it is true that Greece enjoyed a rather long period of growth and stability, interestingly enough between 1950 to 1973 before they joined the European Union, recent developments and cracks in the economy that were visible before the onset of the crisis suggest that the Greek economy, or system, had been fragile for a while already.

In fact, it would not be wrong to say that Greece's economic problems started in the 1980s. After a few decades of strong growth, in which the Greek economy was second to Japan in the world, in fact, the economy started to falter. There were several reasons for this, all of which will be touched upon in the following parts of this section; however, it is important enough to say that even if Greece did have a model of development unique to itself, it had already disappeared by the time the new millennium came, or by the time the crisis came.

4. 2. 1. Problems Within the Mode of Regulation and the Regime of Accumulation

Greece's economic woes, much like an analysis of the crisis from a Regulationist view would suggest, had roots in a variety of different sections of the economy, and the mode of regulation and the regime of accumulation are two of these. The mode of regulation consists of a series of institutions, organizations, social networks or simply ways of behaving within a society that help towards

stabilizing the existing economic system, or the accumulation regime. In a more practical sense, the mode of regulation, thus, involves concepts such as governmental regulation, foreign policy, international relations between capitalist firms and organizations, the way the capital-wage labor nexus is defined and a wide variety of other concepts. Meanwhile, the regime of accumulation could be loosely defined as the structure that allows the reproduction of the existing economic system in a stabile manner, and as can be inferred, is the economic counterpart to the mode of regulations more political and social stabilization. In this aspect the regime of accumulation, as examples, consists of income shares, the relationship between different modes of production, supply and demand relations and production methods. It is within these factors that most of Greece's economic troubles can be found. As has been mentioned before, the regulationist view of the crisis suggests that a disconnection between these two concepts or their insufficiency on their own can cause a crisis, and the Greek example certainly proves this point repeatedly.

The first of many "fault lines" is within the labor relations and the formation of labor, both in the mode of regulation and, in the way that wage earners are connected to production, in the regime of accumulation. There are several different issues within this section. One of the most common arguments against the Greek economic model, and one that has been previously mentioned in this thesis already, is related to the productivity of the labor force. While it is not true that the Greek workforce works much lower hours than other countries in the European Union, productivity levels suggest a different story. Despite the fact that Greece works the second highest hours within the European Union, on the productivity per hour scale the country falls far below this position, in fact it ranks lower than the Union average (Stewart, 2011).

This is related to a variety of factors which will be investigated further on, but suffice to say that the drop in worker productivity is tied to a large number of reasons, such as the rampant bribery and corruption within the Greek workforce,

but one of the primary reasons is the expansion of the public sector following the end of the military junta. When the Greek military junta was removed from power with the beginning of the series of events that were dubbed "metapolitefsi"[11] in Greek, the political state of the country was nonetheless still one of turmoil. Even though Constantine Karamanlis, the ex-prime minister and self-exiled Greek politician who returned, in essence, to bring Greece back to democracy, legalized the Communist Party of Greece after it was banned for years, this did little to change the fact that large sections of the society were outside of the political process and had been alienated for decades. As a result, most analysts suggest that the actual culmination of the period of metapolitefsi happened when PASOK, the Greek socialist party, took the reins of the country in 1981.

When PASOK became the leading party in the country, they started a policy that would continue on for the years to come and would prove instrumental in the government debt crisis of today. To better incorporate the elements of the society who felt maligned by the previous governments, the Greek state started to provide a "safety valve" to the country via the expansion of the public sector, which involved new jobs, pensions and additional social benefits (Fotopoulos, 1992).

The fact that the public sector had to grow to allow more jobs to the public is of importance. Before the privatizations began in Greece through the 1990s, the public sector employed almost two-thirds of the entire population, and public sector wages, up until the crisis hit, was, on average, almost double the amount that the private sector offered (Tsafos, 2010). This was not only due to bad decisions from the government of course; the Greek private sector simply did not have enough jobs to curb the rising unemployment in the country in the 1980s, and as such the government had to step in.

However, it could be said that the Greek government made one crucial mistake in this expansion and investment, which brings this thesis to another hotly

[11] Can be roughly translated as regime change.

contested topic about the causes of the Greek crisis. As the public sector grew, especially starting from the 80s, the government directed its efforts into building Greece's infrastructure. However, even after a decade, the government did not move towards investing into industrial manufacturing sectors. This was also a problem within the Greek private sector. As a result, the Greek economy, even up to the current day, has remained woefully inefficient when it comes to industry, having made the jump from an agricultural economy directly to a services one.

To analyze this point, the focus has to go back even further. Before the Second World War, the majority of the active working population in Greece was employed in agriculture. However, following the Second World War, starting from the fifties predominantly, the Greek economy became a services economy, with more than half the country's total income being provided from these sectors. As a result, for many a year, Greece was the country with the lowest levels of industrial production within the OECD nations (Fotopoulos, 1992).

In and of itself, this development did not need to create a severe economic problem in Greece, as despite its largely service based sector, the economy still included decent production of textiles and clothing in addition to its large tourism sector. However, referring to an earlier point in this very section, productivity rises in the Greek labor force caused this situation to become increasingly more problematic, as other countries within the region, such as Turkey, or in the fast developing South-East Asia, caught up with Greek productivity and eventually surpassed it in affordability and competitiveness, once again a subject that shall come up in the following sections. This resulted in the almost complete demise of Greece's already ailing manufacturing sector.

Another nail in the coffin was that the agricultural sector did not fare any better as years went on, largely due to the same reasons, as productivity levels fell below the averages for countries in Greece's economic level, and investment tanked. In fact, this is an important point that can be made about the industrial

sector as well, as private and public investment in Greece is largely focused on the service sector or, simply, inexistent. This, once again, brings the topic back to the public sector expansion following the end of the military junta, due to all these developments, as years went by, it can be said that the Greek government simply had to expand the public sector to be able to provide more jobs to the public, both from a political inclusion standpoint and an economic, curbing unemployment standpoint.

The Greek welfare state had even more to do with the crisis, however. Pensions in the Greek system have been a problem for many years, as they are in many of the European countries whose populations have been becoming older and older as years go by. With rising pension payments and rising pension recipients, the weight on the economy from this factor has arisen as well. The Greek pension system, and also the welfare state, has problems beyond this factor however (Thomas, 2010).

Retirement pensions have been the biggest item of social expenditure in Greek politics for the last few decades, with pension payments providing almost a quarter of disposable household income. In comparison, other benefits such as those for unemployment and sickness only account to 3% of disposable household income. In addition to this statistic, pension expenditures are expected to almost double in the upcoming decades in Greece, which itself is almost double the amount of rise that is expected in the other European Union countries (Matsaganis, 2011).

But the pension problem runs deeper than mere statistics that show the development of a progressively larger deficit. The Greek pension system also has problems in equality as well, with public sector workers, self-employed workers, middle aged workers and men earning larger amounts in pensions than their counterparts (Matsaganis, 2011). This was a problem that was evident in Greek society for many a year, as reform attempt after reform attempt was shut down

either by labor unions or by politicians who could not risk their voter base, or could not risk alienating sections of the society which had recently entered the political system within the country. As a result, the Greek welfare state and pension system grew to be yet another problem area that helped intensify the economic crisis.

On an opposing view, it is also important to mention that the austerity measures aimed at the admittedly problematic welfare state have not benefited the country any better. Since the Greek welfare state was, in its current condition, benefiting the sections of the society that were relatively well off instead of those that needed direct need, these measures instead pushed the more disenfranchised sections of the society away. An example of this is the aforementioned public and private sector employment differences. While a worker in the private sector has a lower income compared to a public sector employee, recent austerity measures have made it possible for these workers to be laid off without severance pay, whenever the company wished to. Also considering that most of these private sector jobs are within the tourism sector where employment durations do not tend to be a full year, and that pensions for this type of worker were also already lower than the public sector full-time worker, it is easy to see why these austerity measures have been so vehemently opposed by the Greek public, and why they might actually be hurting the recovery of the country (Matsaganis, 2011). Thus, it perhaps would not be wrong to say that what the Greek economy needs is a re-structuring of its welfare state than the reduction of it.

This brings the analysis to another important point. Regulation School suggests that income shares between various social classes and groups and their reproduction is one of the core aspects of the accumulation regime. In Greece, this is another problematic area. Simply within the work force there is a variety of different groups, from those who are employed within strongly unionized public sector jobs to the aforementioned part-time private sector workers. Also included in the problematic groups are the immigrants within the black market economy, young people entering the labor market and the long-term unemployed. In

addition, there are also those who are employed full-time in private sector jobs, who have also been adversely affected by the recent austerity measures that have lowered the standards for their sector.

It would, admittedly, be wrong to say that the public sector has not been affected by the cuts in the system. Nonetheless, the public sector workers have fared better simply due to factors such as full tenure. Thus, even following the reduction in wages, these workers are still in a better position than the rest of the labor force. Also of severe importance is the fact that these workers are unionized much more effectively, as certain private sector jobs, due to being part-time such as in the tourism sector, can simply refuse to hire anyone associated with a union, while government jobs do not have this luxury. As a result, cutbacks and regulations of pensions or other payments received by the public sector are much more difficult to pass through the political system.

It could seem that the public sector seems to be getting an unnecessary amount of criticism. While it is obviously true that workers in the public sector have nothing to do with this crisis, perhaps apart from unions pushing hard against beneficial reform, it is also true that the Greek economic crisis is directly related to the public sector. In fact, looking at debt levels in various countries throughout Europe, if one adds the private sector debt to the public sector debt in Greece, the overall value of debt is the second from bottom in Europe. Thus, it is clear that the Greek economic crisis had its roots within the public sector, as the debtedness that most countries experienced through their private sectors occurred, instead, through the public sector in Greece (The Economic Policy Programme of Greece Restoring Fiscal Sustainability Competitiveness and Growth, 2010).

Another important influence to Greece's economic situation is the immigration problem. Earlier in the 1990s, the European Union closed off most of the main immigration routes into Italy, Spain and France, at least relatively. This led to the unforeseen consequence that when Greece joined the Schengen Agreement,

it also ended up becoming the new immigrant hotspot, with immigrants from various Middle Eastern and North African countries entering the European Union through Greece. The situation, it must be admitted, was further exacerbated by the new agreements Turkey made in the latest years which removed visa requirements from many of these countries. As a result, tens of thousands of people flocked towards Greece.

While most of these people are illegal immigrants, and in this aspect they can be considered outside the economy and outside the realm of Regulation Theory, it is important to remember that not only does Regulation Theory support social factors in the economy and how it is constituted, but immigration issues are seen as one of the main factors by certain regulationists, as mentioned in earlier chapters. However, outside the scope of the theory, when the focus is on the reality of the situation instead, illegal or not, immigration problems are severe in Greece due to a variety of reasons. To begin with, the number of illegal immigrants that enter Greece through land or water can equal almost thirty thousand within a month. Also, of those immigrants that come through water, most of them destroy their own ships as they enter Greek territory so that they cannot be sent back easily, thus, Greece has to let them stay in makeshift housing and provide them with enough resources to fulfill their basic needs (Corcoran, 2011). While this may seem like an insignificant drain on a country's resources, the reality of the matter is quite different and grim.

However, illegal immigrants are not the only problem that Greece has regarding immigration. While an earlier immigrant wave in the 1990s from Albania had arrived in Greece, society had managed to absorb these people without major problems. Conversely, however, the new waves of immigrants are from wildly different cultures, usually Muslims, and arrive in Greece as a last resort to escape either governmental abuses or crushing poverty in their home countries. As a result, ghettos outside major Greek cities, a severe drug and crime problem and a fast

growing black market are all issues that the Greek economy has to combat (Corcoran, 2011).

In and of itself this does not need to be an issue, of course. As mentioned, the Greek system had managed to assimilate a previous wave of immigrants into its social fabric and there is no reason that this cannot happen again. However, largely due to the aforementioned cultural differences the Greek system has been much more inefficient at incorporating these immigrants within the system. Thus, the Greek system gets affected through immigration in two differing levels. In one hand the immigrants that come to Greece, and eventually are refused and sent back, have to live in terrible, appalling conditions near the border, also weighing the country down economically. Obviously it would be quite difficult to blame this on the immigrants however as many have criticized the Greek system for being too harsh on immigration (Corcoran, 2011). On the other hand the immigrants who do manage to get into the country do not get treated any better and are largely relegated to living in the once again aforementioned ghettos as the system is simply unwilling to accept them in. Thus the Greek problems regarding immigration have to be seen as a two sided issue, while the Greek system gets badly affected due to immigration without a doubt due to very basic economic fundamentals, the problem is also exacerbated by the Greek side due to inefficiency in dealing with these developments.

Another important effect of this immigrant problem, as can be seen in many a country in the world that faces immigration in one level or another, is that the public outrage against immigration is increasing. With the surge in popularity of fascist parties such as the Golden Dawn, direct assault on immigrant neighborhoods in Greece has become a reality, and this only leads to further fragmentation in the society with further alienation, as the economy suffers additionally from the rising crime, unemployment and drain of resources that the entire problem brings (Corcoran, 2011).

To return to a more directly economic area, another aspect of politics that regulationists tend to view as imperative in analysis is the international relations and inter-capitalist competition, be it domestic or international. In this regard there have been many problem areas within Greece, some that have surfaced as the crisis grew stronger and some that existed prior to these developments. Also in this analysis it is possible to draw upon credit and monetary relationships between countries, another area that the Regulation School values, as credit rating agencies and the international pressures on the Euro have been quite influential in the Greek crisis.

One of the most apparent examples of inter-capitalist competition can be seen in how the Greek debt restructuring took place. While there were no different capitalist groups within the country that competed strongly in this issue, apart from owners of state-owned enterprises considering what has happened, international capitalist competition was very evident. As was mentioned previously, the Greek debt that foreign banks were holding has been restructured, while Greece has taken more debt to be able to meet the standards for this very restructuring program. As a result, it is estimated that Greece only received an actual value of €50 billion in debt restructuring rather than the touted €156 billion. In addition, as the private sector debt turned into public sector and government debt, the liabilities fell on the taxpayers, resulting in more than 80% of Greece's debt now being funded by taxpayer money (Panageotou, 2011). This development was predominantly to aid German and French banks which had risky amounts of Greek debt in their hands, through which other economies could be affected, such as the United States (Janssen, 2012). This kind of development is linked to the prevailing discourse amongst certain sections that the Greek crisis needs to be contained like a disease before it spreads to other economies.

This type of competition can also be seen within the European Union, according to some economists such as the Nobel winning author Paul Krugman. It is also a view shared by many within Greece, as was made evident during the pre-

match interviews done with football players in the Euro 2012 match between Greece and Germany. Many people in Greece and in other places think that this crisis is as much about the Euro as it is about Greece, and certainly there is some truth to that. This competition can also be viewed through the aforementioned fact that Greece is a peripheral country within the European Union, as well as the overall "neo-liberal world."

The primary point made by many analysts is that the Euro is simply too rigid, as it takes away certain financial tools governments have to manage their economies better in times of crisis. It is not the first time that Greece has experienced this type of downturn, in the 1990s the country went through a similar period of crisis which it had managed to evade through devaluation of its currency, following almost two decades of bad economic performance. Obviously during this period Greece was yet to join the Euro, which makes measures like these impossible for member states. It also goes without saying that devaluation is by no means an easy way out for Greece in this situation. While many economists view it may indeed prove helpful for Greece, there are many others who successfully argue why this may not be the case (Cochrane, 2012). Unfortunately this is neither here or there for the purposes of this thesis, thus more attention to this topic is uncalled for.

What is true without a doubt however, and this is something that majority of Europe seems to be accepting if the recent political summits are anything to go by, is that the current European Monetary System is flawed in one way or another. And Greece has indeed suffered due to these flaws. To go back to the aforementioned "Germany complaint", Germany is being blamed for pursuing its own national interests in the Greek debt crisis, and the root of these complaints lies in the European Union and the shared currency.

At the beginning of the 1990s, Germany was in a poor state economically, with the recent unification weighing its economy down. It was around this period

that Germany went through what most southern European countries are going through now, with unpopular labor and welfare reforms becoming a necessity as Germany restructured its economy. The result is the Germany of today. This, with the historically fresh wound of the record high inflation rates Germany suffered through in the period before the Second World War, has led to the current crisis to become one that is even more difficult to get out of as Germans believe that southern European countries have not made the sacrifices that they themselves made and that they have been irresponsible fiscally with public spending and debt.

The core of the matter is that as long as the inflation rate in Germany is at the level it is at, Greece growing its economy through austerity is a very small possibility. In the recent years, despite strong economic growth, Germany has not allowed its average wage level to increase, in fact, accounting for what little inflation exists in the country, wages have in fact fallen compared to where they were ten years ago. This leads to Germany being increasingly competitive and worthwhile to invest to, even more so compared to other countries considering that, especially for the Greek crisis, international investor confidence is already shaken in Greece.

The situation in Greece now is one of massive unemployment due to the austerity measures, a shrinking economy and shaken investor confidence. Devaluing its currency in this state could give Greece a leg up as it makes its economy slightly more competitive, but since this option is not available to Greece what can instead be done is to make surrounding economies less competitive, through higher inflation in Germany. However, the afore-mentioned historical trauma causes the German government to vehemently oppose any economic development that may lead to higher inflation in the country. This provides Germany with increasing investment from outside as its economy grows strongly and securely, while the rest of the European Union suffers as a result. An important statistic is Germany's trade surpluses with the countries in crisis, Greece, Italy, Spain and Portugal, in that while the surplus with Greece and Italy doubled in the recent years, with Spain it tripled

and with Portugal it quadrupled. Thus, there is a certain amount of truth to claims made that suggest Germany is benefiting greatly from the crisis in these countries (Dowling, 2011).

Of course these developments, like many others, are only one side of the coin. It would be irresponsible and lazy to suggest that all of Greece's current problems are related to factors abroad and that Greece is the victim, despite the views of certain economists. Nonetheless, both for the sake of the big picture and for the analysis of the Regulation School, these factors must also be investigated, as the international involvement in Greece's crisis does not only lie within the European Union.

Another interesting angle within this entire crisis is the way that German politicians and economists have reacted to Greece. While the Greeks have dubbed the head of the European Commission sent to provide Athens with technical assistance by Brussels, a German national called Horst Reichenbach, "Third Reichenbaum, Germany has blamed Greek officials for the massive amount of corruption within their country, and, once again, as it was mentioned earlier, once the well-being of Europe was guaranteed, they were less than patient with the Greek administrations as a result ("How a Good Idea Became a Tragedy", 2011) (Barkin & Geller, 2012). This view, sadly, is one that is shared by many countries in the world and their public. The overriding discourse regarding Greece in the world media is that Greek's are lazy and corrupt. The fact that Greece is now being called the "sick man of Europe" is a very symbolically strong term for people in Europe and Turkey, and it tells something (Panageotou, 2011). While this public perception is not the topic of this thesis, it is nonetheless another important concept to analyze, especially considering this view was popular amongst certain circles before the crisis hit. As a result, it is without a doubt that this international perception and deteriorating relations with other countries has also played a part in the Greek crisis.

Greece's crisis, while admittedly a government debt crisis, is also one of confidence. It was the belief amongst investors following the government's declaration that the deficit was larger than they had imagined that caused many investors to withdraw money from Greece and refuse to lend more to the country. Behind this factor, as could be seen in the previous chapter as the thesis traced the development of the crisis, were the downgrades from the credit rating agencies.

Many analysts in the countries that suffered economically as a result of the credit rating agencies downgrades, notably Spain for example, have blamed them for their bad conduct. Indeed, it could be argued that these downgrades, while obviously rooted in reality to some level, help to make a situation that is negative for these countries even worse. It could also be argued that some of the actions that credit rating agencies take are "self fulfilling prophecies", in that they believe a certain outcome is possible economically in the future and downgrade according to this possibility, and the loss of investor confidence that follows their decision makes this a reality. This was the case in Greece.

Nonetheless, it must of course be admitted that credit ratings agencies are not diabolical institutions that want to bring down the economies of countries at risk. Especially when Greece is concerned, the sudden deterioration of the country's finances was indeed a troublesome sign that not everything was going well. In addition to this development, the fact that certain statistical wrong doings were expected in the country for the last few years caused a massive upheaval alone within the financial markets, and the credit rating agencies downgrade was only a natural consequence of these events (Hannan, 2011).

However, as it has been mentioned before, investor confidence in the government's ability to pay its debts was the main cause of this crisis. As a result, it would also not be prudent to suggest that credit ratings agencies had nothing to do with what has occurred within Greece. Arguably, Greece simply suffered more in this system whereas in another time this crisis may have been less important,

nonetheless, it is not possible to leave credit rating agencies out of this equation as the reason for this crisis being so catastrophic has largely to do with how the credit downgrades affected Greece's economy.

Another factor related to international economy is the connection between the American and the Greek crises. When the financial crisis began in America, most people expected that it would have greater repercussions, and this proved to be true, as country after country suffered as a result. However, as it has been established before, the reason that the crisis affected Greece was related to how the financial markets of the world are now integrated. The Greek financial system was not significantly intertwined with the American system, most of its dealings instead rested with other European nations. However, due to the already shaken global confidence in the financial markets, a perceived threat from another country after what happened in the United States caused many financial institutions to react strongly and retreat from the Greek market. Thus, the inter-capitalist relations between countries and the adhesion of Greece to the financial markets played a vital role in how the crisis occurred.

In regards to the adhesion of Greek firms to the international economy, however, there is not much evidence for the argument that they have also negatively affected the country. While it is true that most of Greece's private sectors have been in decline in the past decade as well, including traditional main sectors such as tourism, shipping and the textile industry, their involvement in the economy was not one that was faulty. In fact, arguably, Greece is perhaps one of the unique cases in which a country's private sector is the socially and fiscally responsible sector, compared to the public one.

Nonetheless, an argument could be made that the government policy that was followed as Greece opened to the financial markets was flawed. In the 1980s when Greece opened up to the international markets swiftly alongside the wave of neo-liberalism around the world, its economy was adversely affected by the lack of

interventionist or protectionist policies that the government could have incorporated. Instead, companies that were left to their own tools were soon swallowed up or destroyed by the products in international markets. This is not to say that companies in Greece were without fault too, however, it was around this period that the business elite that would become problematic for the country in the upcoming years came about. To quote from J. Petras:

> most of the 'industrialists' continued to accumulate wealth by borrowing huge amounts of capital from the state banks, investing a fraction and diverting the rest to overseas bank accounts. The debt/capital-investment ratio remained one of the highest in the world because industry was directed not by the usual kind of entrepreneur but by a highly distinctive stratum of kleptocrats (Fotopoulos, 1992, para.6).

Thus, it could be argued that as a result of these developments, by the time the crisis hit there was not really much of an industrialist base left in the country, nor was there a significantly strong private sector, apart from the abovementioned traditionally strong sectors such as tourism, textile and shipping of course, to talk about. It is due, in part, to this fact that belief the private sector is relatively without blame in the Greek example holds true. However, the same cannot be said for the state owned enterprises, with their low competitiveness, productivity and incredibly high pay. A simple example of this factor is the Greek railway industry, which loses more money than any other transportation system within Europe.

One final point of importance is related to the Euro. As it has been mentioned earlier, during the crisis the Euro has been criticized for being too rigid and taking away certain financial options of the countries that use it. While this is a correct assessment, another angle also has to be mentioned. After Greece joined the Euro almost a decade ago, it had the "benefit" of being able to borrow beyond its means, at much lower interest rates, due to increased market confidence. This is argued as being one of the reasons for Greece to have been able to create such a large public debt and deficit, due to successive governments abusing this concept, but of course this was a trend within the private sector as well.

An analysis of the Greek public sector is a necessity to understand Greece in a better light. As it has been mentioned earlier, the Greek public sector suffers from being "politicized", in that leading parties since the eighties have used the public sector to bring those that were pushed aside politically to the center. This, as has happened in many different countries including, in some level, Turkey, has led to a development in which every party that wins an election creates jobs in the public sector for the interest groups that have supported them. Considering that firing someone who works in the public sector is next to impossible, this makes the situation even more disturbing. On a comparison between the public sectors of several EU countries, Greece's public sector has come out as the one with the lowest efficiency (Panageotou, 2011).

Sadly the public sectors woes do not end here. In addition to the aforementioned pension and retirement troubles, Greece's public sector is also blamed for being excessively large, and slow. This has led analysts to suggest that new businesses are much more difficult to create in Greece, with almost a double increase in the amount of regulations and the amount of days it has to take before a company can be formed. To add to this effect is the high wages and low competitiveness in the country which has led to many Greek businesses moving to neighboring countries such as Turkey and Bulgaria (Panageotou, 2011).

The last and perhaps the most vital areas of analysis are the forms of state intervention and economic regulation. Regulation Theory, as is readily apparent from the previous chapters, gives great value to these concepts and how they relate to the economic system, as they are in both the mode of regulation and the regime of accumulation. Looking at the crisis in Greece, it is easy to understand why this approach is worthwhile, as the Greek crisis is perhaps most directly related to these two factors. However, it must be mentioned early on that while the subject of government spending, the public sector and the welfare state are also parts of these subjects, due to the heavy amount of analysis that these topics have already

received, this section of the thesis will instead focus on the allegations of corruption, poor regulation, the black market and tax evasion topics.

Corruption in Greece is a serious problem that has gained a strong foothold in the country. It is very widely spread into all sections of the society, and perhaps more problematically, it is something that has gained acceptance in the collective consciousness as well, with most of the public accepting of behaviors under this topic. Corruption is said to be such a big loss to the government, in fact, that it is argued that the government loses almost 8% of the GDP each year due to corruption, and if there had been a better control of corruption within the government, the deficit could have been smaller by 4% of the GDP (Panageotou, 2011).

While corruption is spread out across the society and is not only limited to the government, as will be investigated further on, there are still several governmental scandals that bear deeper analysis. One of these is the Koskotas Affair, named after Giorgios Koskotas who was the former Bank of Crete, and was jailed and imprisoned in 1988 after embezzling $200 million. Upon further investigation it was discovered that Koskotas arranged for the leaders of the administration at the time, the PASOK led Papandreou administration, to be able to transfer large bank deposits out of the major national banks to the Bank of Crete. Following this transfer, these funds could be withdrawn at a much lower interest rate and the excess interest would be sent to the bank accounts of the PASOK politicians. While several ministers were openly found guilty of this action, they only received suspended jail sentences (Panageotou, 2011).

Another scandal that has gained more interest, especially within Greece following the rise of anti-German sentiment, is that of the Siemens case. It was discovered that Siemens bribed several Greek politicians to ensure more favorable government contracts, all within the last decade. The scandal was only unearthed

when Swiss prosecutors became suspicious of illegal transfers in the accounts of Greek politicians.

The most problematic aspect of all these scandals and corruption allegations is the fact that corrupt politicians are very difficult to prosecute, much like it is in Turkey. Members of the Greek parliament enjoy a very similar immunity to those in the Turkish parliament, in that they cannot be imprisoned, prosecuted or arrested without the Parliament's approval, which is very rare considering most of the Parliament is filled with other like-minded politicians (Panageotou, 2011).

However, corruption in Greece is not only limited to the government, as has been mentioned before. The public in Greece are also very used to corruption, so much so that there are two terms that have been coined for two different types of bribery in "day to day life". One of these concepts is "fakelaki", which is used to signify bribes given to anyone from government officials to doctors to speed up service, and takes its name from the small envelopes in which it is given. The other is "miza", which is given to government officials to get better contracts or given to other sector employees so that they will actually do their jobs. Corruption is so prevalent in society, in fact, that it is estimated that most of these bribes are actually given to tax collectors so that they will not closely scrutinize any one person's accounts (No Tax Please, We're Greek, 2010). Another frightening example is regarding doctors who refuse treating a patient unless a certain amount of money is given beforehand (Chan & Malone, 2011).

This is not the only way that corruption rears its head in Greece, however. Tax evasion is a serious problem in Greece, with the black economy expected to be anywhere from between 25% to 40% of the country's GDP. Coupled with the corruption of government officials and the system of bribery, the problem becomes even more intense, as it has been documented that during the lead up to elections, the enforcement of tax laws becomes even looser and tax evasion rises even more, and even when there are people who are found out to be evaders, it is very difficult

to fix the problem as courts tend to take anywhere from seven to ten years to resolve their cases (Surowiecki, 2011).

Another problem regarding the tax system is that it is seen as being far too progressive. While most countries have problems regarding their taxing laws in that they tend to let the rich pay less than the middle class or the poor, the situation in Greece is the exact opposite. This is largely due to the widespread corruption within the system however, instead of being the fault of the tax system alone, which by itself would not have caused problems of this scope. Until recently anyone making under €12.000 did not pay any income tax, and there were quite a few professions who were legally allowed to underrepresent their income. Doctors, singers and athletes are also amongst those that are given more favorable rates, which leads to a tax system that almost encourages people to not pay income tax by lying about how much money they make. All of these constitute a loophole that has remained open due to political pressures once again. Politicians find it difficult to regulate these types of tax problems due to the belief that middle and low income earners will stop voting for them, as they are a larger base than the rich. Thus, the rich end up having to pay far more than the middle and low income classes, and, as it is common around the world, the rich tend to use different methods to evade tax as well, leading to a severely broken down tax system (Panageotou, 2011).

The sorry state that the tax system is in leads to yet another problem, as the public belief that paying taxes is an honorable and “good” thing to do deteriorates, tax evasion increases more and more, with people feeling as if they are doing something illogical by adhering to the rules while so many others are not. Thus, it could be argued that tax evasion in Greece is not only an economic concept but a social one as well, an idea that rings very familiar in regards to regulationist views of the economy. This belief also finds some support in the notion that tax evasion, for Greeks, is related to their national history in regards to the Ottoman Empire, where Greek people would try and evade the Ottoman “haraç” tax as a form of resistance.

Romanticized ideals of liberty and rebellion aside, however, what is a certainty is that the Greek economy and the Greek society are at fault at a variety of levels, and that one factor is always tied to the other. It is due to this fact that the Greek crisis provides such a strong example to test out regulationists ideas regarding how crises occur. The following part of the thesis will contain an analysis of how well Greece's crisis fits into a structural crisis perspective according to the Regulation School, however, even without a more concentrated analysis of this type it can be seen that the Greek crisis proves many theories of the Regulation School.

Regulation Theory holds that there are several different types of crises, ranging from ones that are seen as regular and expected to ones of other varying levels of importance. A structural crisis finds itself at the latter end of this spectrum, as it is a crisis that is suggested to be one which requires massive upheaval in a system. Simply from these words it is tempting to think that the Greek crisis, which has certainly led to many staggering developments, fits into this definition. However, a closer investigation is nonetheless important.

The first point that is raised in defining a structural crisis is the fact that the rate of profit cannot go back up on its own without intervention into the system, due to the inexistence of self-correcting mechanisms. This is certainly the case within the Greek crisis. As the crisis grew stronger it was made more and more apparent that the Greek economy would not be able to come to a stabilized position internally, as the problem was far too much spread out. As a result, intervention into the system became a necessity.

The second point that is brought up is that most institutional forms are affected by the spreading of the crisis from its beginnings to the whole system. The Greek crisis certainly fits this requirement as well. It could be argued that since the Greek crisis arose due to the society in its whole being problematic in some fashion or another, there was not much of a post-crisis spreading of economic troubles. However, this would be wrong on two accounts. Firstly, even if the analysis was

only limited to the domestic politics and economy of Greece, it could be seen that what started out as a government debt crisis soon caused problems within a wide spectrum of the society. It was not only banks that had troubles, tourism sectors, agriculture, other private firms and even the country's own social and political mood was negatively affected by what has happened. In addition, if the crisis had only occurred within one point in the system it would have been possible for Greece to "pull itself from its boot straps"; however, this was not an observed situation as the situation in Greece desperately needed outside intervention.

The second point is that the crisis in Greece has by no means only remained specific to Greece. What started out as a government debt crisis in one of Europe's smallest economies soon started to run the risk of causing a system-wide collapse as the entire well-being of the European Union was put in doubt. Possible similar developments that may occur within Spain, Italy and Portugal got much greater responses than they might have gotten if the Greek shock had not occurred, and even nowadays the prevailing fear has not abated. It must be mentioned, however, that there are those who see this in the completely opposite way, in that the Greece crisis is actually a part of a much more severe and serious European Currency Crisis. Looking at the way things are at the time of this thesis being written, the only thing to say to this idea is "time will tell." The Greek Crisis may indeed be just a "pre-shock" before the actual crisis comes, and there are certainly factors that point to the Greek crisis being linked strongly to certain failures of the Euro as a currency, as has been mentioned before in this chapter. Nonetheless, this does not change the fact that there are many other economies within the European Union who neither benefit nor suffer due to the Greek Crisis as of now, and thus the argument of a system-wide crisis of this type has not yet, in the view of this writer, come to pass.

To return to the topic at hand, however, the third and final requirement for a crisis to be considered a structural crisis is that economic mechanisms alone cannot find the way out from the crisis and intervention from outside sources

becomes a necessity. This, once again, is certainly something that is observable in the Greek crisis. In fact, considering the amount of direct intervention that has been done to Greece in the last three years, it could be argued that Greece's crisis is a considerably severe structural crisis. There has been many an austerity measure and bailout program that has gone towards trying to improve the situation in Greece, but so far all of them have been unsuccessful as the situation deteriorated in the months to come. At this moment after the final bailout fund and the debt restructuring, Greece's finances seem to be in a more stable state, but once again, this is not the first time that this notion was prevalent in world markets.

Thus, looking at all these facts, it seems to be a certainty that Greece's crisis is no simple, passing problem, but a symbol of something much greater, in line with analysis that suggest the Greek crisis is part of a larger crisis of neo-liberalism. While making grandiose statements such as "the entirety of the Euro is at fault" may be uncalled for, it is nonetheless obvious that the Greek system, as well as parts of the European Union system, in its entirety is definitely in the need of severe change and regulation, and that without these it will not get back on its feet any time soon. One belief shared amongst many economists, if not all of them, seems to show this very clearly. Despite all the bailouts and the austerity measures that Greece has received, it is expected that for its economy to reach the levels it was in before the crisis started, about eight or more years have to pass. After so many structural changes from pension systems to taxation to budget planning, the fact that Greece's economy will still need almost a decade before it can fully recover seems to support the theory that this crisis is a structural one.

All things aside, however, the Greek crisis supports the Regulation Theory belief that economic systems are linked to social systems within a country. While it is without a doubt that Greece's economy was not flawless, it would be insincere to suggest after all of these developments that Greece's only problem was its economy. Greece's economic problems had their roots firmly planted in its society, be it the rampant corruption, the political tradition of excessive spending,

international relations with the European Union and how joining the Euro had problems regarding its currency and competitiveness to how it was left vulnerable due to the credit relationships that it was in with the rest of the world. It is without a doubt that Greece's crisis occurred due to a failing in more than one area, and that it is exactly this kind of problem that led this crisis to be one so prevalent. Thus, it could be argued, Greece's example supports the Regulation School belief which states that crises arise from regimes of accumulation and modes of regulation. It can only be hoped that significant improvement in both of these sections of the system will lead to the founding of a sufficiently strong model of development which will allow Greece to enjoy some stability after this period of immense hardship.

CHAPTER 5

THE TURKISH CRISES OF 2000-2001 AND THE EXPERIENCES OF 2008

For anyone living in Turkey, the crisis period at the start of the new millennium would bring into mind several captivating scenes. The first, and most widely known, is the seemingly unimportant act that started the second crisis, the then-President Ahmet Necdet Sezer throwing a copy of the constitution at Prime Minister Bülent Ecevit during a National Security Council meeting. The second, slightly less important scene would be the relatively small but significant rounds of protests towards the IMF for its role in the crisis. But the third one, the most obscure one, is the most striking. Three days after the crisis hit in 2001, a man by the name of Ahmet Çakmak threw an empty cash register at Prime Minister Ecevit, calling himself a tradesman and protesting the recent developments.

The question of why this seemingly unrelated fact is mentioned is a valid one, but its answer shows the experiences in Turkey in the last decade very well. Ahmet Çakmak had serious debt due to his business, which increased as the crisis worsened. The problem was that his debt was not in Turkish liras but instead in American dollars. Thus, as the foreign exchange rate went through the roof, so did his debt. He claims that he had to sell his house and his furniture just to be able to get by. Ten years later, now, however, he is a landlord and a home-owner with his own prosperous small business. This development and change of fortunes for Ahmet Çakmak is also one that he shares with most of Turkey. (Turkey's Economy From 2001 to 2011: Stronger, Steadier and Safer, 2011)

Economically Turkey was in a bad state for most of its existence. While there were periods in which it had remarkable growth, certain deep rooted issues in its economy were never addressed, due to a variety of reasons which this thesis will

investigate in this chapter. However, the fact of the matter is that the 2000-2001 crises gave Turkey a much needed shock, the same way that the eruption of a volcano and the subsequent destruction of the land around it benefits the soil. The two crises demolished certain broken systems in Turkey and hand in hand with other developments, this led to Turkey being reborn from its ashes.

It is easy to get carried away, however, and lose track of the realities of the situation. Ahmet Çakmak is aware of this fact as well, and he blames the country for forgetting the past too fast. Turkey's economy has improved substantially in the recent years, this is true. Nonetheless, problems are still existent in its system, and the economy may just as likely go into crisis for a variety of reasons, rather than continue its impressive growth.

What might happen in the future is beyond the point of this thesis, however. Recent developments have shown that Turkey's economy has strengthened beyond what could have been expected, as the 2008 crisis, while not completely "skimming past" like political discourse would suggest, has caused significantly less trouble for it than it has for many European countries, let alone catastrophic cases such as Greece. The reason for this lies in the crises of 2000 and 2001 and the regulation that was implemented in the country as a result. Thus, in this section, the analysis will firstly be on the experiences of the two crises Turkey went through at the beginning of the millennia. Then the thesis will focus on the re-adjustment period from a Regulation School perspective like in Greece, to see whether or not Turkey's crisis occurred from the areas which Regulation Theory suggests it should have and whether or not the fact that Turkey survived the 2008 crisis with minimal damage was because of the mending of the scars in its system in the past.

5. 1. The Background and Development of the 2000-2001 Crises

While it may be ambitious, it would certainly not be wrong to trace the causes of the 2000-2001 crises in Turkey to developments in the middle of the 20th century. Turkey was a country that had decent levels of growth for many a year,

long before the neo-liberalization policies of the 80s started. However, this growth barely reflected on the society, due to a variety of reasons, with the main one being populism, much like in Greece.

Ever since the 1950s and the Menderes era, Turkish economy suffered from populist political parties using the government's political and country's economic power to benefit certain sections of the society for re-election purposes (Öniş, 2011). As a result, for long years Turkey had severe fiscal issues and staggeringly high inflation. It was in an environment similar to this that one of the military coups occurred, in fact, which is widely seen as another reason for Turkey's economic woes. While some people view the military interventions as somewhat necessary during the period of time they were in, it is hard to argue that they were beneficial at all in the long run, instead substituting benefit in short term for negative effects in the long term.

These kinds of military interventions caused economic problems as well as democratic ones, however. While economically they scared the foreign investors by showing a country that lacked any semblance of stability, they also impeded the country's democratic process by making "top-down" reforms a common characteristic of the country. Once again, it was this development that led to Turkey's swift neo-liberalization in the 1980s. Sadly, this transformation did not benefit Turkey any better, despite, oddly enough, being hailed by international organizations as an example of a successful adjustment (Öniş, 2011).

This positive reaction was not uncalled for the time, even though it may seem rather wrong in hindsight. Indeed in the beginnings of Turkey's neo-liberalization, the economy did improve, with inflation falling from three digit levels to 30 percent in only three years, alongside growing GDP and surpluses in the current account. However this did not last long and following the return to parliamentary democracy the economy began to deteriorate once again. The situation was also exacerbated by the fact that financial markets were liberalized

before sufficient regulatory reform could be put in place, which became all the more difficult to do in the unstable coalition-prone governments that followed (Akyüz & Boratav, 2002).

The reaction to the decline in economic performance and the once again rising inflation would prove to be monumental in the upcoming crisis, as the government decided to fully liberalize the capital account, which came hand in hand with deregulation in the foreign exchange regime. These developments allowed the influx of foreign currencies into the economy as residents and non-residents alike started to abuse the differences in currencies, most notably the dollar and the lira, and the markets were left to the mercy of international capital flows (Akyüz & Boratav, 2002). One of the main reasons for the liberalization and deregulation of these sections of the economy was the need to finance the public sector debt that was mounting, without putting a halt to private investment. To better describe the processes that occurred through the capital account liberalization, this quote is appropriate:

> The premature transition to full capital account openness in 1989 without the necessary regulatory framework and fiscal and monetary discipline, in turn, has generated a fragile, lop-sided pattern of development, heavily dependent on inflows of speculative short-term capital. The failure to develop regulatory state capacity in line with the needs of a more liberal financial and capital account environment has been costly for Turkey, resulting in three consecutive crises (Öniş, 2009, p.5).

Sadly, the outcome would not be very positive, as public debt increased even more quickly following the changes, due to a financial system that used the currency exchange rates as its primary source of funding. The government on the other hand kept paying its debts by accruing more debts, as the interest payments on domestic debt reached a staggering 75% of all tax revenues in the country. This came hand in hand with massive instability, in that while the Turkish economy continued to grow at 3% throughout this period, the year to year change in growth averaged 6%.

One fact that must be mentioned during analysis of the Turkish neo-liberal experience is that Turkey shares this pattern of development with quite a few other countries around the world, the most commonly known examples of course being the crisis in Argentina and the Asian crises. The problems the country experienced with regards to the exchange rates especially are quite telling. It is this line of thought that would suggest Turkey as being another peripheral country in the larger neo-liberal system, much like Greece was suggested to be a peripheral country within the same system and the European Union. In this manner, the Turkish crisis should be seen as being part of and being very much like other crises in the world during the 1990s (Duménil & Lévy, The Neoliberal Era: Argentina's Reprieve and Crisis, 2006).

Nonetheless, it was in this period that Turkey went through the first of many crises it would suffer in its new neo-liberal system. Nonetheless, the effects of this period were small enough to be called insignificant as the economy bounced back without much delay and averaged 7% growth rate for the upcoming three years. Unfortunately this proved to be a short period as the sudden outset of the East Asian crisis slowed capital inflows into the country and growth fell to a meager 1.8% of GDP. The next year did not turn out any better either, with first the Russian economic crisis and then the massive earthquake putting additional weight on the economy, with eight banks being taken over by the government due to its unbelievable 100% deposit insurance policy, which increased public debt even further (Akyüz & Boratav, 2002). It was this deposit insurance alongside the lack of sufficient regulation in the banking system that would lead to the problems that the country would face in the upcoming year.

It was in this state that Turkey decided to turn to IMF for help, a significant development, considering that even though the economy was in distress, it had yet to suffer through a serious crisis. This led to the signing of a stand-by agreement with the IMF in 1999, which aimed to improve the conditions in the economy by reducing inflation to seven percent by the end of 2002. It was hoped that the

reduction in inflation would also cause a reduction in the interest rates and help bring back some balance to the economy. In addition, a tighter fiscal policy, a freeze in the rise of salaries of public sector workers so that they would only get a raise that would keep their wages at the same level as it was before the annual inflation rate and an exchange rate strategy were envisioned in the agreement. Fundamental problem areas of taxation, privatization, banking regulation and reductions in agricultural support prices were also included (Öniş, 2011).

The general effort at improving the country's economy was also aided by the Helsinki Summit of the European Council which endorsed Turkey's candidacy for full membership, giving both national and international actors greater incentive to restructure Turkey's economy. In addition, it is possible to argue that by the turn of the millennium, public debt had gotten so high that governments had realized the fact that they simply could not afford populist policies anymore. Neo-liberal restructuring and balancing was surprisingly supported by parties which, naturally, should have been against it, such as the Nationalist Action Party (Milliyetçi Hareket Partisi) and the Democratic Left Party (Demokratik Sol Parti), which further showed an increased commitment in the country for these reforms (Öniş, 2009).

Sadly as the reforms got underway it became apparent that this support was not completely sincere, as NAP (MHP) vehemently opposed the reduction of agricultural subsidies and the privatization of the state telecommunications enterprise. However, increasing pressure for both the EU and the IMF kept the reform program going despite these objections, but the lack of enthusiasm was nonetheless very apparent, and this was one of the factors that led to the first crisis in 2000 (Öniş, 2009).

Despite this resistance, however, the reforms started out without serious problems and decent results were reached, with exchange rates and the deficits at the rates the plan had foreseen. However, inflation proved to be a bigger problem than expected. In spite of this, the fact that interest rates fell faster than inflation

benefited the budget greatly and privatization attempts were carried out strongly. The positive developments and the presence of the IMF helped encourage foreign investment to increase, while conversely domestic investment kept moving out of the country, a sign that not everything was going as perfectly as it was hoped. Another negative sign was the fact that the fall in the interest rates helped create a consumption boom which caused deficits to grow larger within the country (Öniş, 2011).

It is not possible to simply say that the crisis occurred due to domestic problems however, much like in the case of Greece, Turkey too was adversely affected by the developments in the world leading up to its crises. High energy prices and the rising value of the Euro, alongside the recent troubles in Argentina and East Asia had caused investor confidence to drop. In addition, many analysts also blame the IMF for the two crises which occurred in the duration of its economic program. This is both due to the relatively small amount of money the IMF spent to support the economic restructuring project and due to the lack of information that the IMF received about the particulars of the Turkish economy. Arguably it could be said that this is the fault of the IMF, rather than of Turkey, as the IMF "had a standard model and tried to apply it in a number of countries, irrespective of its lack of information concerning the political and institutional environment prevailing in those countries (Öniş, 2011, p.14)."

It was in this state that the November 2000 crisis hit. Arguably, while the upcoming February 2001 crisis would prove to be a more significant one, the November crisis was a simple liquidity one; but nonetheless, it proved severely detrimental for the economy. In another comparison, even though both the crises arose in some fashion due to the banking sectors, the November crisis was in the private sector while the February crisis would affect the government-owned banks. Nonetheless, the crisis occurred as a result of declining investor confidence as a result of lower than expected values in the economy, a growing deficit, reduction in capital inflows, political opposition to both the European Union and the IMF plan

and the sudden shortage of foreign currency, as the main cause of the crisis was a loss of confidence in the economy and the subsequent withdrawal of money (Temiz & Gökmen, 2009). A commonly made argument about this crisis is that it could be avoided, considering, as it has been mentioned before, it was a liquidity crisis. However, the Central Bank was prohibited from injecting money into the financial system by the IMF, which led to the collapse of many privately owned small to medium sized banks, all of which were dependant on foreign currency due to years of profiting from the differences in the exchange rates (Öniş, 2011).

Despite the shock to the financial markets and the collapse of several banks, however, the November crisis did not last very long and the economy was stabilized by the end of 2000, mostly due to aid from the IMF. The government decided to implement stronger reforms, such as tax increases and spending cuts, liberalization of certain services, financial sector restructuring, privatization and the dismantling of agricultural support policies. The IMF was supportive of these measures and the discourse amongst international circles once again turned to one of support and positivity (Akyüz & Boratav, 2002).

Sadly, nothing could be further than the truth. A sudden public squabble between the Prime Minister and the President and the throwing of a book by one to the other later, Turkey was in an even more severe crisis. Once again, panic amongst investors led money to leave the economy alongside the Turkish Lira losing half of its value in an instant. Overnight lending rates between banks reached a staggering 5000% which led to a massive loss of liquidity in the markets. When the dust had settled, it would become apparent that in the three months between the two crises and in the following weeks after the February crisis, an estimated sum of $17 billion had left the Turkish system, mostly due to foreign investment being withdrawn.[12]

[12] While this may seem significant, it must be remembered that since the start of the program in 1999 more than a sizeable amount of foreign money had entered the country due to reasons

The following weeks saw more IMF aid promised to the country, for an overall $30 billion aid since the beginning of the plan, alongside more financial measures taken by the Turkish government, in a situation that closely mirrors what Greece went through in recent years. The new program was called “the strengthening program” and it mostly focused on structural changes to banking, fiscal transparency and privatization. Government projections and macro-economic goals set by the IMF for the country were considerably modest compared to those in the past, but nonetheless in the upcoming months the expected fall in GDP was revised first from 3% to 5.5%, and then to 8.5%, the reasons for the steep fall explained by the unfortunate events of September 11 and the financial shock they led to.

Nonetheless, there were bright spots in this crisis as well, in the political side as well as the economic. The former aspects will be investigated in greater detail in the following paragraphs, but the latter is perhaps more surprising. While the IMF aid did help stabilize the markets in some fashion, the markets were also aided by the sudden collapse of the economic system. Due to the crisis, imports fell strongly and as a result the balance of payments improved. In addition, due to the recession debtors who were financing their debt by essentially taking more debt became unable to do so, thus the sales of domestic currency were reduced as well. All these led to market stabilization being smoother than it would have been expected on IMF aid alone (Akyüz & Boratav, 2002).

All in all, when looking at the Turkish crisis following the Greek example, one factor seems to stick out, which will be investigated in depth further on in this chapter as well. The difference between the two countries is that while Turkey had as many systemic defects as Greece did, whether it is a lack of regulation in financial markets or populist governments like in Greece, Turkey had many additional positive sides to its experience compared to Greece, such as better industrial

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mentioned before. As a result, even after the crises, Turkey was still around $26 billion richer when it came to foreign investment.

performance, relatively higher intent to carry the reforms through, to follow the plans that it was given to the letter and, perhaps most importantly, a more widespread belief amongst the world that Turkey was improving, despite its crisis. All these factors, as mentioned before, will be investigated in greater detail.

Nonetheless, one additional area of analysis remains before this chapter is finished. It is a widely accepted belief that Turkey managed to weather the financial crisis of 2008 better due to the crisis it went through in 2001. There are quite a few analysts within the Greek example who suggest a similar factor about Greece, that had Greece suffered through a crisis earlier, before the 2008 economic crisis had happened and before it kept financial statistics secret to lead them to being worse than they would have been, its economy would have recovered more easily. This is undoubtedly true for the Turkish case as well. On hindsight, it might seem that Turkey chose a terrible period to have an economic crisis in, between the massive earthquake in the country, a coalition government of ridiculous political division and the eventual September 11 attacks, things look grim for Turkey.

But this would mean turning a blind eye to the positives in the period which contributed to the Turkish recovery. Perhaps first amongst these, as has been mentioned before, was the Helsinki Summit. The fact that Turkey was accepted as a candidate for full membership into the European Union not only invigorated the markets, but also invigorated the politicians and the public in the country, bringing the topic of reform into the forefront of public discussion. The thought that even if Turkey did not become a member, it had to go through these reforms was a common one during the period. These positive effects were also increased by the European Union's insistence on Turkey following certain principles, which created another impetus for Turkey to follow through with its policy reforms (Öniş, 2009).

The other positive influence to the country's progression lies in the IMF. This bears some explanation. As it has been mentioned before, it is a common theme amongst writers to suggest that the IMF pursued mistaken policies in its

management of the economy, and while it may be tempting to think of this criticism as rooted in nationalistic views related to the Turkish obsession with the Ottoman experience and the financial domination the country suffered through in its last years, there is sufficient proof to prove these views as correct. Nonetheless, the important factor that must not be forgotten is the fact that Turkey applied to the IMF for aid in a period in which its economy was not in crisis, even if it had severe issues. This, plus the insistence of the IMF in several points that the Turkish economy was improving, sets it apart from the Greek example where the overwhelming consensus of the international markets was that the Greek economy was on the brink of collapse. The result of the constant IMF encouragement was that international investment to the country, while causing both the economic crises due to a loss in confidence and subsequent withdrawal, was nonetheless significant enough that even after the crisis Turkey still had a surplus in foreign investment. Of course, as it has been mentioned, this development must be considered alongside the fact that the IMF also had a hand in causing the crisis in the first place in Turkey.

Another element of international stability for Turkey, and the probable reason as to why the IMF lent Turkey far more money than was initially planned, was the sudden increase in Turkey's political importance in the world following the election of President George W. Bush to the White House and the following September 11 events. Due to both this development and the European Union full membership candidacy, it could be argued that Turkey suddenly became an important country for western interests and that this was the reason for the excessive IMF involvement in the country.

The final beneficial development in Turkey is also connected to the modern day. While domestic politics in Turkey is as divided as any country in any part of the world, it is very difficult to argue that the end of the series of coalition governments in the 1990s and the lone victory of the Justice and Development Party (AKP) did not benefit the markets. Indeed, following the election in 2002, markets showed a

significant improvement when it became apparent that Turkey would not be led by a coalition government once again. Whether or not JDP's (AKP's) policies helped Turkey to improve economically or if the party simply benefited from its predecessors' actions may be discussed, but it is not a focal point for this thesis. What is true, however, is that under the JDP (AKP) regimes Turkey has gone through a period of relatively sustained economic growth.

It was during this growth that the 2008 economic crisis occurred. As has been mentioned before, it is commonly argued that Turkey survived this crisis better than other countries around its economic level due to the financial regulation that it had put in place at the beginning of the decade. This is, without a doubt, a correct statement; if only for the fact that had Turkey not put in those regulations, it would likely have suffered even worse than Greece, considering the state of its financial markets.

Nonetheless, it would also be false to say that Turkey did not suffer any negative effects due to the crisis. Also admittedly, these negative effects did not constitute a crisis either, as Turkey managed to get over the negative developments in its markets with minimal damage. Nonetheless, in 2008 and 2009 unemployment rose to around 16% from its position in 2007 at 9.9%, the economy contracted by about 5% of the GDP and foreign investment was reduced to below $2 billion (Temiz & Gökmen, 2009).

However, the fact of the matter is that despite these negative developments, Turkey managed to grow back to its previous GPD level in the following years, investment soared as investor confidence in the country's economic stability increased, unemployment was reduced to near its 2007 levels and despite the common reductions of grades in many strong economies in this period, Turkey's credit rating was eventually increased as a response to its positive growth. Thus, it is possible to say that the "new" Turkish system managed to weather its first challenge relatively well (Temiz & Gökmen, 2009). In fact, arguably,

it could be said that certain sections of the Turkish economy benefited from the crisis. In the last decade the Turkish economy has become the world's 16th largest economy, rising up from 26. In addition, the global meltdown of banks around the world scarcely affected the Turkish banks; instead many of them emerged stronger from the 2008 economic crisis, as did other sectors of the economy (Turkey's Economy From 2001 to 2011: Stronger, Steadier and Safer, 2011).

For the sake of balance and a fair analysis, however, great attention must be given to not get carried away with positive news and forget reality. While the Turkish economy has indeed survived its first major test following the restructuring in 2001, and both the society and the economy have done well, the truth of the matter is that Turkey's economy, and the Turkish society, still have many fault lines that could eventually lead to economic, and other troubles. The lack of democratization in Turkey is one of the most severe, and, as it has been established before, under a Regulation Theory analysis it is not possible to separate the corruption of the society in one area from another. Thus, the problems that Turkey has related to education, tax evasion and most prominently its judicial system are significant. In addition, Turkish growth of recent years has benefited from privatizations and rising foreign investment, both of which are inconsistent sources of funding for an economy, even though the argument could be made that the country has not gone bankrupt due to the 2008 crisis and the lower amounts of investment that followed it. Another problematic area is that despite substantial growth in the Turkish economy, unemployment has not fallen down in a similar fashion, at its lowest point standing at 9.9%. Other additions to these darker economic statistics are the rising current account deficit[13] and increasing foreign debt, which, arguably, is taking the place of the domestic debt that the country had during the 2000 and 2001 economic crises, though on a brighter note, it is at a much reduced level (Yeldan, 2008).

[13] This deficit is significant due to the fact that Turkey has never been a country which ran current account deficits, at least as far as the last two decades are concerned.

Thus the state of Turkey, like pretty much every single neo-liberal capitalist country, as well as most of the peripheral neo-liberal countries, is in a state of uncertainty. The economy is likely to continue its positive growth patterns, as the relatively strong exit from the 2008 economic crisis and its continued growth during the troubles in Europe point to strong fundamentals. In addition, it could be argued, that Turkey is growing as a society also, sadly not in a democratization sense but in the belief of its people and its politicians in the improvement of the country and its value, as can be seen from the stronger political and economic position the country has taken in its region. It is this transformation from a weak country with a terrible economic system at the beginning of the decade to a strong, promising one that the thesis will now investigate in the following section, comparing and contrasting the problem areas in Greece according to Regulation Theory with the ones in Turkey, to see if a Regulation Theory analysis could be used to explain Turkey's crises as well as Turkey's recovery.

5. 2. Analysis of the Crises and their Aftermath from a Regulation School Perspective

Leading up to the two crises at the beginning of the new millennia, the Turkish system was undoubtedly frail. However, in comparison to the Greek example, there are several developments that were more beneficial to the Turkish case, and as a result it is easy to argue that Turkey not only had a lighter crisis but also got over its crisis with bigger ease. Nonetheless, this does not mean that the Turkish economy did not have structural issues that were similar to, if not rivaling, the Greek case.

In regards to labor relations, Turkey, similar to Greece, had serious retirement and pension issues, which continued for a long duration, having been re-adjusted after the crisis. Nonetheless, it would be insincere to say that Turkey had as serious a worker production and pension payment problem as Greece, largely owing to the fact that for several decades the Turkish labor force has been,

comparatively, much younger than the Greek or European cases. As a result of this, pension payments never became as large a part of the public spending as it did in other countries. Another factor that bears mentioning is the fact that, much like the Greek example, the majority of the Turkish workforce was employed by the public sector as well, a trend that has progressively changed in recent years.

Another issue related to the labor force in Turkey is from the lack of unionization. There are two sides to this issue, however. The lack of unionization in the workforce has the result that wage inequality in the country is larger, and as a result, especially in the period leading up to the crisis, there was a severe income gap amongst various sections of the society. This situation was further exacerbated by the fact that certain regions of the country are much less advanced, in addition to the fact that the agricultural sector of the economy was substantially larger in Turkey up until more recent times, once again compared to other economies of its level.

As with the Greek case, inter-capitalist competition and international relations had a profound effect on the Turkish case as well. As mentioned before, the Greek crisis arose as a public debt crisis, with the private sector performing better than the sectors of many other crisis-prone countries of its time like Italy, Spain and Ireland. In comparison, in the Turkish case and especially in the November crisis, the private sector was much more at fault. Thus, while in the Greek case inter-capitalist competition was more related to the way that the crisis was managed, with the private debt by banks being re-routed through the government to the people and the international capital protected through the measures taken after the crisis, in the Turkish case the international capital was involved from the beginning of the crisis.

As mentioned earlier, during the development of the crisis Turkey attracted quite a sizeable amount of monetary inflow from foreign actors, largely as a result of the liberalization of the capital account and the foreign exchange. This led to

both domestic and international investors to try and make money through the foreign exchange system, a concept called arbitrage. While in and of itself this need not have been a problematic development, the fact that common international scares led to quick exits from the markets led to the crisis on both occasions, with international capital withdrawing from the markets quicker than the domestic capital could, at least in the initial crisis.

Nonetheless, much like the Greek case, international capital benefited following the crisis as well. As can be expected, the rising amount of privatizations and most of the IMF policies aided the foreign capital relatively more than the Turkish case. High interest rates and, while lower than before the crisis, beneficial exchange costs attracted “hungry” financial investors into the country, which was largely speculation based in the early years after the crisis. These developments led to the shrinkage of the Turkish public sector, as mentioned earlier (Yeldan, 2008). In addition, the rising external debt, undoubtedly, benefited the international capital as well (Dufour & Orhangazi, 2008).

On the bright side, depending on the point of view at least, the Turkish capitalist classes benefited from the crisis environment. Even though a large number of domestic banks collapsed due to being unable to finance their debt, they had to be taken over by the government as result of the deposit insurance policy. Thus, the losses in the economy in this fashion were carried by the public sector. In addition, the larger banks which survived the crisis benefited from the increased interest rates following, and during, the crisis, and the eventual opening of the market as smaller and medium-sized banks disappeared. Furthermore, the Turkish government also guaranteed the loans made to Turkish banks, a move that benefited both the national and international capital at the expense of increased government debt and weight on the public sector (Dufour & Orhangazi, 2008). Whether all these developments were good for the country overall is a subject for debate, of course.

In regards to the international environment, as mentioned earlier, Turkey enjoyed a much more supportive situation compared to Greece. While the earlier Argentine and East Asian crises had lowered investor confidence both in countries with IMF presence and developing markets, the IMF's encouragement still afforded Turkey more investment than expected. In addition, the support and "push" of the European Union in regards to both economic and political reforms, due to the Copenhagen Criteria, helped make the reform processes smoother in the country through convincing both the public and the politicians of their benefit. This came hand in hand with IMF's aid, which worked in a similar fashion, especially after the arrival of Kemal Derviş.

The case of Kemal Derviş is one that should be investigated in greater detail. It could be said that Kemal Derviş embodied two important characteristics within his personality that helped Turkey to get over its crisis in a smoother manner. Before he had been called to aid Turkey's reform process, he had worked for almost three decades in the World Bank as a top level professional economist. While this also caused certain sections of the Turkish public to view him as a "foreign agent", this same characteristic also increased international confidence in the Turkish markets as well as increasing assistance from international financial institutions. In addition, Kemal Derviş also helped to bring the economic reform package, which was largely mandated by the IMF, to the domestic realm and to increase confidence and trust in the domestic markets through diffusing the "loss of sovereignty" arguments.

Another area of importance for the Turkish crisis has been the nature of monetary and credit relationships. As could be ascertained from the earlier sections, the Turkish crisis was largely based on this section, due to fundamental exchange rate, inflation and interest rate issues. One of the primary reasons for this fact was the result of the IMF program, which took away most of the Central Bank's powers in regards to monetary expansion, turning into a "semi-currency board". As a result, monetary policy became tied to foreign exchange flows, making the

sustainability of liquidity in the economy based on the inflows of international financial capital (Yeldan, 2002). This, in addition to the fact that the program foresaw exchange rate devaluation and the financial markets being based on short term arbitrage[14] speculation, left the Turkish economy at the mercy of the financial markets.

In addition to these developments, attention has to be given to the rising government debt in Turkey, as mentioned earlier. As years went by and populist policies continued, eventually the Turkish government, much like the Greek government once again, had to sustain its debt via adding higher debt to its balances. This is the main reason, alongside the alleged inability to follow the IMF program that international critics used to define the economic crisis that Turkey suffered through, although this point is criticized by many Turkish writers.

Despite all of these factors, however, the most important problem in the Turkish case was still the lack of regulation, and the manner in which the state had intervened in the economy. While the liberalization process after the 1980s initially benefited the Turkish economy, the quick liberalization before any type of regulation could be put in place hurt both the Turkish public and private sectors in time. The multi-party system after 1987 did not help this problem, as subsequent unstable coalition governments had difficulties making the necessary adjustments and changes to the financial system. This made the economy even more dependent on foreign capital, which is one of the direct causes of the crisis, considering in both cases the capital that left the country was foreign in nature rather than domestic investment (Öniş, 2011).

Another area in which the lack of regulation hurt the economy was in the private banking sector. Due to this, in addition to rampant corruption in the system, certain bankers managed to rob the system through lending large amounts of credit

[14] This financial arbitrage can be calculated as the end result of an operation that converts the foreign exchange into Turkish Liras at the rate ER, and after earning the rate of interest R offered in the domestic asset markets, is reconverted back to foreign currency at the prevailing foreign exchange rate.

to their own corporations, thus making it so that these corporations used the banks as a financial source. This was one area that was swiftly fixed following the regulatory actions after the crisis (Temiz & Gökmen, 2009). The other, already mentioned problem in the banking sector was the fact that the banks benefited considerably from the exchange rate liberalization, in that they borrowed credits abroad and then exchanged the amount in Turkey, in the meantime gaining funds through the arbitrage system. It was mostly the small and medium banks in the country that used this method, and thus as a result, following the crisis a grand total of 20 banks had to be taken over by the government, restructured and eventually privatized.

All in all, it is clear that the Turkish economy had quite a few structural issues that made a crisis inevitable, as evidenced by the fact that the country went through two crises from two different sectors in quick succession, first the private banking sector and then the public. The lack of regulation in the markets, the uneven development pattern in regards to the quick, top down neo-liberalization, populist policies by the governments and the successive weak coalitions all contributed to the Turkish case, and the only way for the country to be able to get over its financial troubles lied in austerity measures such as the ones seen in Greece, increased financial regulation and even democratization in other sections of the society.

However, it is still obvious that the circumstances in which Turkey experienced its crisis were much better than the Greek one. While Turkey had structural issues such as Greece as well, Greece did not have a supportive economic environment like Turkey did, nor did it have a political one. The recent 2008 Global Financial Crisis, the fact that Iceland had to default on its debt and went bankrupt, the fact that Ireland was saved from the brink of bankruptcy, all scared investors before the Greek crisis even showed itself, thus when the crisis hit, Greece suffered much more strongly than Turkey did. In addition, the Greek society and economy had much bigger fundamental flaws than the Turkish one, including government

regulation and corruption. Arguably the only sector, when one compares the 2001 Turkish Crisis to the Greek Crisis, that seems to have performed better in the Greek case is the financial sector, largely due to the fact that in the Greek example they were relatively innocent. However, following the crisis it is important to note that the weakness of the Greek banks eventually led to problems in Cyprus as Cyprus had to request aid from the European Union. Thus, even though the Greek financial sector was stronger than the other sectors of its economy and Turkey's financial sector, the fact that the other sectors of the Greek economy were in a much more terrible state has to be kept in mind.

The final question is a Regulation Theory one, whether or not Turkey's 2000-2001 crises were structural crises. It is a fact that the Turkish system could not reproduce itself and that the profit rate could not go back up on its own without intervention. Large sections of the Turkish system had to be revised, from pension payments to the financial sector to various human rights issues in the country. The fact that the economic path the country was on proved unsustainable, whether it was the result of populist politics or neo-liberal economics, was made apparent through the events that followed. In addition, many institutional forms also proved to be weak as the crisis spread from its core, this weakness and the rise of doubt that followed it eventually encompassing other actors, such as, surprisingly, the IMF, as a result of it being unprepared for the particulars of the Turkish system due to the aforementioned lack of information. The monetary and credit relationships, the state, neo-liberal competition in the markets and, in regards to the pension payments and the early retirement age the wage labor nexus all had problematic areas. In fact, oddly enough, it could be said that the one benefit for the Turkish system throughout the crisis was the international regime, through external anchors that kept Turkey on the right track.

Finally, it is apparent that without considerable structuring, the economy could not return to a stable configuration. This is visible in both the crises Turkey went through before the final, serious 2001 crisis. During 1994 Turkey had a minor

crisis, caused largely by the departure of money from the markets. However, due to the ineffectual nature of the crisis necessary precautions were not taken. It is possible to see this same pattern repeat in 2000, despite the fact that the IMF was significantly involved in the economy and restructuring efforts had already begun, the regulation of the financial sector and banks were still left to second place. Thus, it is obvious that before the major fault lines within the Turkish system were fixed, growth was impossible.

All of these developments point to the fact that the 2000-2001 crises, together, constituted a structural crisis for Turkey, much like the Greek crisis. However, due to the regulatory reforms following the 2001 crisis, Turkey managed to get through the 2008 Global Financial Crisis with, relatively, minor wounds. It is possible to qualify this downturn in the Turkish economy after the 2008 crisis as a cyclical crisis, in accordance with Regulation Theory views. And indeed, this proposition seems to be supported by the theory as well. Turkey had significant issues, mostly in its mode of regulation, but also significantly within the existing regime of accumulation as well. It was only through the mending of these scars that the Turkish economy was able to strengthen itself and avoid going through another structural crisis in 2008. Thus, it can be said that the Turkish example proves the Regulation Theory view of crises arising from regimes of accumulation and modes of regulation correct, but from a different angle than the Greek crisis.

Despite all these facts however, it must not be forgotten that the Turkish experience in 2008, while not severe enough to be classified as a structural crisis under Regulation Theory, was perhaps a significant cyclical crisis nonetheless. While some regulationists, as mentioned before, classify cyclical crises as usual business cycles, it must be remembered that cyclical crises point to deficiencies within the system as well, much like ones encountered in a structural crisis. The difference lies in the scope of the crisis.

In 2008 and 2009 the Turkish economy contracted for two years in a row, alongside rising unemployment and a drop in production levels. While the financial sector, considering that the 2000 and 2001 crises arose from this section of the economy, was much better off in comparison to the past, this does not automatically mean that the country did not experience any kind of negative effect. Thus, under a Regulation Theory analysis, while the Turkish experience in 2008 was still largely a cyclical crisis, it should be mentioned that this was due to the crisis being smaller in scope, as the economic downturn no doubt points to problematic areas in the Turkish economy.

All things said however, it must also be remembered that the Turkish economy got back on its feet starting in 2010, and by 2011 most of the areas in which the economy performed poorly, at least as far as the "crisis" period of 2008 and 2009 are concerned, were seeing decent improvement. Unemployment returned to its 2007 values by 2011 for example, as well as the growth numbers returning to normal. Obviously this does not mean that the Turkish economy is without fault, rising foreign debt and a quite significant current account deficit point to possible future problems within the Turkish economy. Also, the fact is that the Turkish economy is much more open to shocks that occur in Europe than it is to shocks that originate from the United States, thus, if a major European crisis occurs due to Spain, Italy, Portugal or France, then chances are that the Turkish economy will be much more severely affected than it has been in 2008 and 2009.

However, all of these are beside the point of course. While, like pretty much all economies in the world in this period, the future for the Turkish economy is not very clear and has problem areas that can cause much larger issues, the fact of the matter is that Turkey did indeed manage to get through the 2008 crisis and its immediate aftershocks with a decent performance, especially in comparison to certain other countries around its economic range. Thus it can be stated, once again, that the Turkish example does adhere to Regulation Theory analysis in this

level, as a period of structural crises has left its spot to cyclical crises, albeit relatively strong ones, after sufficient measures and change have been put in place.

CHAPTER 6

CONCLUSION

Crises, be it economic or otherwise, are a common occurrence in capitalism. However, the strength of these crises vary, while some are catastrophic events that change the societies they affect for decades to come, others are simple occurrences that negatively affect one or two sectors and are forgotten in just a few years. There is no doubt that the financial crises that the world has seen since the 2008 Subprime Mortgage Crisis in the United States fall in the initial category.

Globalization has been a concept that has dominated much of the world in these past years, and with good reason. However, it was this globalization and the interconnectedness that it brought, which led to a crisis in the United States to have far reaching consequences, further than anyone could have imagined. Companies that had to be bailed out in the United States due to bad decisions and shady financial dealings were involved in economies in Greece, Ireland and many others throughout the rest of the world. The credit ratings agencies that gave high ratings to mortgages with absolutely no change of being paid back downgraded other economies of the world without a second's thought, plummeting their economies into chaos.

Regulation Theory proves a useful tool for an analysis of a situation of this caliber. A theory that finds its origins in 1970s France, Regulation Theory seeks to analyze the way in which economic and non-economic forms and periods of stability in capitalism are constituted through transformations of social relations, in essence arguing that both social relations and economic factors hand in hand create the periods of stability. It is important, however, to note that Regulation Theory writers view their theory as more of a framework or approach, both owing to the

fact that they do not want their theory to be rigid and to the fact that their theory encompasses a wide selection of institutions, concepts and aspects of society. In this goal, it borrows from other lines of thought such as institutionalism and Keynesian macro-economics.

Regulation Theory also denies many assumptions of neo-classical economics, in that they reject the existence of rational individuals acting in an abstract world of perfect markets which are disembedded from the social sphere of society. On the contrary, Regulation Theory focuses on the analysis of many political and social factors, such as labor processes, technological progress, foreign policy and immigration issues, differing and changing institutions in various countries and periods and even abstract concepts such as the passage of time, rejecting the notion that actors in the economy have a perfect knowledge of the future.

This type of disconnection between reality and theory is at the core of Regulation Theory thought, as they criticize many different lines of thought for ignoring reality when it does not fit the theoretical framework, blaming both Marxism and neo-classical economic analysis due to this issue. It is again this disconnection between reality and theory that brings Regulation Theory to its analysis of crises, in the statement that while other theories think of crises as irrationality or an oddity in the theory due to external factors, Regulation Theory views crises as inherent in the system and arising from sections of society that cannot be excluded from an economic analysis. Thus, it is admitted freely that, as Marxist thought suggests, capitalism is prone to crises, however, regulationists also argue that despite being crisis prone, capitalism also has periods in which the system is stable, as well as having crisis periods that are eventually completely circumvented. This line of thought is where most of the main Regulation Theory concepts arise from.

The focus on crises and how the system manages to create stable periods without crises is, as a result, at the core of Regulation Theory. There are a variety of

concepts that the theory uses to explain this phenomenon. Primary amongst these is the notion of a regime of accumulation, which is defined as the very system that makes such stable periods of accumulation possible. However, Regulation Theory also goes one step further and tries to answer the question of what stabilizes an accumulation regime. The answer to this question is the mode of regulation, which is defined as a mixture of norms, institutions, organizational forms, social networks and even patterns of conduct. Thus, the mode of regulation is, arguably, a slightly more social side of the stabilization process while the regime of accumulation is thought to be economic. However, it must be mentioned that there is no strict separation between these two concepts in a Regulation Theory view, and they both incorporate these elements within themselves. Another concept of importance in this arm of the analysis is the concept of institutional forms. In a Regulation Theory view, institutional forms are specific configurations of mostly social relations in a given time and place. Money, the wage-labor nexus, the type of competition, the international regime and the state are seen as the main institutional forms in Regulation Theory analysis.

The final concept that Regulation Theory focuses on are the model of development. The models of development arise when a successful mode of regulation and a successful regime of accumulation create a period of stability long enough. The main model of development that Regulation Theory investigates is the Fordist model of development. In fact, considering that Regulation Theory has lost some of its significance in the passing years, for the majority of Regulation Theory analysis the Fordist model of development has remained as the only model of development, with the post-Fordist model unable to be identified succinctly by many regulationists.

As for crises, Regulation Theory offers a variety of definitions. The first of these is the exogenously triggered crises, which are in general shocks from outside the system, mainly outside the mode of regulation. These crises are seen as a small anomaly. The cyclical crises are similar, in that they are viewed as natural for

capitalism and the system manages to recover from them without major change. The important type of crisis for this thesis and for Regulation Theory, however, is the structural crisis. In this type of crisis, markets need significant amounts of intervention, reform and regulation to recover, as the system is inherently flawed, with institutional forms, the mode of regulation and the regime of accumulation all at conflict with or within each other. As a result, these crises require widespread change in the system, as the rate of profit is unable to go back up by just the normal process of the market.

It is this type of crisis that the world has gone through following the experiences in the United States. The Subprime Mortgage Crisis constitutes a structural crisis as well. In this manner, it is important to analyze the United States' crisis in greater detail, owing to the fact that the crisis was the spark that caused the crisis in Greece and the rest of the world, and to the fact that the American crisis shows the inherent problems in the neo-liberal system clearly, as while in the Greek and Turkish cases, the crises can be somewhat contained within a few select sections, in the American case it was the entire system that was at fault.

In addition to these factors, it is also possible to suggest that all three crises that the thesis examines, as well as the wave of crises that are occurring in the world in current years, all point to an overriding crisis of neo-liberalism. Within this crisis period, the American example is vital, as it has been mentioned before, due to the fact that the country is the "cradle" of the neo-liberal model and best shows the deficiencies in the system. Furthermore, the placement of the country as the center of the neo-liberal system is of importance as well.

The fact that the United States plays the central role in the neo-liberal model is also important in comparison to the other two countries that the thesis focuses on, Turkey and Greece, two peripheral countries within the neo-liberal system. It is not very difficult to see that both of these countries owe at least parts of their crises and bad economic performance before their crises to neo-liberalism, and the

peripheral relationship they have with this system is also why this is the case. It is due to these relationships between these three countries and their particular experiences that the thesis has chosen to focus on their three examples. The United States shows the overall neo-liberal models deficiencies at the center of the system, if not the birthplace, while the Greek Crisis shows the problems of the neo-liberal model within Europe, as well as showing the problems it has caused within the periphery. Greece's position as a peripheral country within the European integration only helps to strengthen this vein of the analysis. Lastly, Turkey shows, much clearer than Greece perhaps, the problems that an uncontrolled neo-liberal model can create in a peripheral country within the system, due to the fact that the Greek crisis cannot be separated from the larger European Union picture while Turkey's experiences are, for better or worse, unique to itself, despite of course sharing some characteristics with other crises within the same period as the Turkish Crisis, such as the crisis in Argentina.

To return to the American experience, the Subprime Mortgage crisis, as can be inferred from its name, mainly arose from the mortgage market in the United States and the financial techniques and tools that this market manifested over the years. However, it would be wrong to suggest that the crisis was a purely financial one, as the American government was implicit in many of the causes of the crisis, mainly via financial de-regulation in few decades leading up to the crisis. An analysis of the American crisis, and the crises in other countries after, necessitates a certain financial backdrop to make better sense of the developments in the modern world and the main causes of these widespread crises. As a result, the American example can provide a fitting entry point into analysis.

Politically there are three patterns of development that are important for the period leading up to the crisis. The neo-liberalization of the economy, especially following the Reagan administration, is one of these. The other is the increased political maneuvering in the country to increase the rate of home ownership, with state owned institutions providing credit to those who were unable to get houses.

This came hand in hand with the development and subsequent deregulation of the subprime mortgage markets, as the ease of getting credit from banks was increased as the years went by.

It was all of these factors that led to a massive boom in the housing markets in the United States, and the crisis arose primarily from this point. In 2006 and 2007, the housing market started to slow down, which lowered the price of homes across the country, and made financing mortgage debts with new loans taken on the increasing value of the house unsustainable. As a result, more than a million homes went into foreclosure by the end of 2007. The subsequent loss of assets for the banks caused the crisis to affect other markets such as Britain, China and Japan. Governments across the world injected liquidity into their respective systems, including the United States, but it was too late to stop the catastrophe as investment bank after investment bank went bankrupt in the US, which prompted the government to bailout the financial system.

A more in-depth look to the particulars of the Global Credit Crunch of 2008 necessitates a larger focus on the finance system of the world and the United States. The housing bubble, as was mentioned earlier, was the main cause of the crisis, but the creation of the housing bubble arose through mortgage contracts that the banks were handing out, which would be called subprime mortgages, as they were often given to sections of the society which had a very small chance of actually being able to pay these back. While this may sound like a terrible business practice, and it was proved that it actually is a terrible business practice, the financial sector in the United States and throughout the world had been so de-regulated that new techniques had arisen to make money through this broken system.

Securitization is the main technique in this sense. It is a tool that banks used to be able to "securitize", as in to turn an illiquid asset and to make it tradable, the mortgage contracts. This allowed banks to profit from every mortgage contract they issued, as they could then securitize these contracts and sell them off to other

investment banks and investors. For this purpose, the banks grouped these securitized mortgages together to form tranches, a new financial concept in which more than one investor would invest in more than one mortgage agreement at a time, with the less risky mortgages and investments getting paid earlier and the others getting paid later, but for more.

However, these tranches needed an additional institution of the financial sector, as their credit worthiness could not be assessed with ease. Credit rating agencies filled in this role, via rating these tranches and mortgages. The problematic area was that they rated almost all of them with the highest possible rating, not inspecting the agreements themselves but looking at the supposed credibility of their issuers instead, who were largely the giant American investment banks. This system managed to go unnoticed due to a severe lack of government regulation, both in the investment banks and the credit ratings agencies. This, in addition to the shadow banking system, a network of institutions which do not go through the regulation that banks do, but nonetheless act, in essence, as banks, caused the massive lack of regulation in the markets to create even larger problems.

Thus, as far as the American example is concerned it can be stated that the way in which the crisis originated and the type of the crisis both conform to Regulation Theory views. The main problems within the American system arose from credit and monetary relationships, types of competition, state intervention into the economy and regulation; all areas within the mode of regulation or the regime of accumulation. In addition, certain beliefs within the society such as the insistence of politicians to increase home ownership or the overriding thought that financial markets could be played through mortgage systems especially to gain profit led to the crisis. However, the events following the American crisis and the lack of significant change seem to point to a problem in how Regulation Theory fits the American example. Nonetheless, change has occurred within the system and arguably the process has not yet come to an end, thus, this is an area for speculation.

Nevertheless, all of these developments fed into one of the biggest crises in world history, which soon spread to other countries as it left the world's financial markets in a state of disarray and fear. This was the direct cause of the Greek crisis. While it is true that the Greek system was in a sorry state in the last few decades, the fact is that the shock in the markets due to the revelation that Greece had a bigger deficit than expected is the main reason for the crisis.

The resulting flight from the Greek economy started the crisis. The Greek economy had to be bailed out several times by the European Union, and each bailout carried new austerity measures alongside it, mainly entailing cutbacks to the welfare state and lowering of wages for the workers. However, credit rating agencies continued to downgrade Greece's rating as the crisis deepened, which, in a financial system already reeling from the crisis in the United States, meant that investors avoided the Greek economy with an even larger fervor. Violent protests became a common occurrence in the country as a reaction to the austerity measures, followed closely by the often repeated question of whether or not Greece would exit or be forced to exit the European Union. Fortunately, the second round of the national elections managed to elect a party, New Democracy, which supported the continued membership of Greece in the Euro and the European Union, and as a result, for the time being, the situation has somewhat stabilized.

A closer analysis of the Greek case from a Regulation Theory perspective raises a few important points. The most commonly repeated problem area in the Greek economy is within labor relations, whether it be regarding work hours and low productivity or pension payments. Admittedly, some of this criticism is uncalled for, surprisingly enough the Greek labor force has the second highest average work hours in the European Union. However, this is offset by the fact that their productivity is fourth from the bottom. Nonetheless, most of the problems related to labor arise from the politics of assimilation in the country, as a result of the years of alienation of several sections of society under the military junta. This development led to parties such as PASOK to use the public sector to benefit

sections of the society that were alienated and that, incidentally, were their main voting bloc. These types of populist policies continued for decades in Greece, contributing largely to the growing size of the public sector, its low productivity, high wages and the country's growing public debt.

The differences amongst the labor force and various social classes and sections of society are another important issue. The private sector workers in Greece, on average, are paid less, have weaker job security and tend to be employed for shorter periods of time as a result of the private sector being predominantly composed of service sector jobs. In comparison, the public sector workers are paid more, have better pay and are employed full time, as well as benefiting from higher pension payments. The fact that the austerity measures have cut the pay and have allowed companies to fire private sector workers without severance pay has widened this gap even further. In addition, the unionization of private sector workers is next to nothing, which is another problematic area.

A similar problem lies in immigration. Ever since the European Union has managed to effectively reduce the amount of immigrants that enter the region from Italy and Spain, Greece has been the immigrant hotspot of the Union. As a result, Greece is negatively affected by increased crime and poverty, especially near its bigger cities, and an additional stress on the fabric of society, evidenced by the rise in neo-Nazi parties within the system.

Internationally, Greece has not been far better off either. While it is impossible to ignore the amount of economic aid that the country has received from the European Union, it is also not possible to ignore the fact that the crisis largely arose due to the actions of credit ratings agencies. In addition, through the austerity measures and the restructuring of the country's economy, the debt that private banks held in Greece and other countries has instead been converted to public debt, negatively affecting the Greek citizens instead of international capital. A similar criticism is often given to Germany, for benefiting from the crises in the

south of Europe. The reason for this criticism is the increased competitiveness of the German markets due to anti-inflationary policies of the government as the southern economies get weaker, and the trade surpluses that Germany has enjoyed with all of the southern Europe countries that are in economic trouble at this moment. As was mentioned earlier, the panic amongst the investors is another issue which has been largely detrimental to the Greek economy from an international perspective, for which the credit ratings agencies are often blamed.

All in all however, it would seem that the main problem in the Greek case arises from the lack of regulation and the adverse effects of state intervention in the system. The main area in which these troubles can be seen is the rampant corruption in the Greek system, with bribes being an accepted part of the political and social culture of the society. This is largely evident in the fact that the black economy in Greece is thought to amount to anywhere from 25% to 40% of the GDP. One of the main reasons for this is the high amount of tax evasion in the country. In addition, the tax system is also problematic due to being far too progressive, with anyone earning under €12.000 exempt from income tax. As a result, a large percentage of the population shows their earnings as lower than this amount to get away without paying taxes. This entire situation is further exacerbated by the fact that politicians are often unwilling to regulate these sections of the economy in fear of losing votes.

This is one thing that the Greek economy had in common with the Turkish economy, especially before the 2001 crisis in the country. While Turkey has largely managed to avoid the 2008 crisis, this is due to the fact that the country has put in the necessary regulations to prevent problems both in the state and financial levels. The 2000 and 2001 crises that the country went through were both, in essence, banking crises, but nonetheless, the fundamental reasons for the troubles in the banking sector were the last few decades of politics in the country.

There were a few problem areas. Populist policies since the 1950s were one of these, as were the eventual swift neo-liberalization. In addition, the common military coups and inept leadership of successive coalition governments caused foreign investment to be significantly lower in Turkey compared to other economies. The final nail in the coffin was the full liberalization of the capital account and the deregulation of the foreign exchange regime, both of which caused an influx of foreign currency into the economy as actors attempted to profit through the exchange rate differences. This development was based on the need of the government to finance the rising public sector debt, which did not work as planned as domestic debt increased even further as a result. This led the country to its first crisis of the neo-liberal system in 1994, a minor crisis that did not cause any change within the system.

The worsening economic conditions led the country to ask the IMF for assistance in 1999, notably due to the fact that the IMF had been called before a crisis began, showing commitment in the Turkish side for the needed reforms. The IMF plan foresaw a reduction in inflation, which would reduce interest rates in return and balance the economy. In addition, certain austerity measures and general reforms in the country would be made, in regards to taxation, privatization and banking regulations. These reforms were also supported by the developments of the Helsinki Summit which declared that Turkey was a full candidate for European Union membership, giving the country further impetus to carry out its policy changes.

Sadly, decreasing political enthusiasm to pursue the reforms as a result of opposition from the right wing party in the coalition, in addition to the high interest rates in the country, and the fact that the markets were hesitant due to the recent crises in Argentina and Eastern Asia led to the first crisis in 2000, a crisis in the private banking sector which resulted in twenty banks being taken over by the government, significantly adding to the public debt. The crisis arose due to the

withdrawal of foreign money from the markets as a result of a loss of confidence, a pattern that would repeat in 2001 as well as in Greece almost a decade later.

A public quarrel between the President and the Prime Minister led to another loss of confidence in the market and a new crisis in February 2001, once again for the same reasons, this time affecting the public sector more strongly than the private sector. As liquidity problems arose in the markets, overnight lending between banks reached staggering amounts. Fortunately, IMF aid was swift as it was in November 2000, and they came hand in hand with a new round of austerity and financial measures, much like in the case of Greece. Sadly, the events of September 11 put an additional strain on the markets and the crisis worsened as a result.

However, while the devastating earthquake in 1999 and the September 11 events, in addition to the aforementioned crises in other markets, were unfortunate developments for Turkey, the country also benefited from other external and internal factors. Primary amongst these was the possibility for European Union membership, which led politicians and the public to be further invested into reforming the system, as well as increasing investor confidence in the Turkish markets. The IMF contributed to the economy in a very similar fashion with its consistent declarations that the Turkish plan was on the right track, despite being blamed by many analysts for causing the crisis, considering both crises occurred when Turkey was following an IMF-created economic plan. In addition, the rising importance of Turkey in a post-September 11 world also benefited the country, as well as the end of weak coalition governments as a result of the Justice and Development Party winning the elections with a majority.

An in-depth Regulation Theory analysis of the particulars of the Turkish crises shows structural defects that closely match the Greek case in certain aspects. From a labor perspective Turkey, much like Greece, also had a sprawling public sector that was inefficient, a problem that has been "rectified" in the last decade as

a result of the privatizations that the country went through. Pension payments before the crisis and the subsequent austerity measures were also a problem, though in this aspect the Turkish economy was in a much better state compared to Greece.

Through the privatizations and other developments in the crisis, international capital benefited from the Turkish experience. Nonetheless, Turkish capital grew as well, with even the banking sector benefiting from the developments as larger banks became stronger and bigger after many medium to small sized banks collapsed. Rising external debt in comparison to public debt also benefited international capital. However, the international environment, as mentioned earlier, was in favor of the Turkish system as well, through the assistance of the European Union and the IMF largely. Nonetheless, it must also be remembered that it was the IMF led policy which left Turkey's economy to be dependent on short term arbitrage speculation as a result of exchange rate policies. Of course, Turkey had gotten on this path before the IMF was involved in the economy as well, thus, the IMF cannot take all the blame.

Overall however, much like in Greece, the most important problems in the Turkish example are still those that are related to government regulation and debt. As with the Greek example, successive Turkish governments too have financed their rising debt with borrowing more from banks, which was one of the reasons for the financial troubles in the country. However, in the Turkish case, the early neo-liberalization before sufficient regulatory bodies could be formed is more vital, as well as the lack of regulation in the banking sector primarily.

All in all, this thesis has attempted to answer the question of whether or not the Greek and Turkish crises could be explained via the Regulation Theory, and whether or not these two crises constituted a structural crisis in Regulation Theory analysis. The data found through this research would suggest that both of these propositions are correct. Both the Turkish and the Greek crises arose from an

intertwined social and economic situation, with their economic troubles largely based on the policies of their respective states. In addition, the problem areas in their economies closely matched the problem areas in their societies, and in the Turkish case, sufficient reform and regulation in these problem areas led to economic stability and growth.

Moreover, in both Greece and Turkey, it is easy to see that the crises both arose from within the regime of accumulation and mode of regulation, as Regulation Theory suggests. For both countries the majority of the problems were within the mode of regulation, mostly with regards to state intervention and regulation. While in the Greek example it would seem as if the period of stability that Regulation Theory would foresee arose from factors which arose due to Greece becoming a member of the European Union and further on in the fact that the country did not release accurate statistics about its economy, in the Turkish example this period of stability barely existed, as after the neo-liberalization of the economy the country was often in periods of minor crises with positive economic performance arising in the periods between, if at all.

Furthermore, even after the crises and the period of recovery after 2000 and 2001, the Turkish economy still experienced a partial crisis in 2008, a cyclical crisis by Regulation Theory point of view. However in this area it is also possible to criticize Regulation Theory or at least a point of view that is shared my some regulationists, which state that cyclical crises can be defined with concepts such as "the usual business cycle." This is due to the fact that the Turkish experience in 2008 was definitely more than a usual business cycle and more of a crisis, and if the definition of a cyclical crisis as a usual business cycle is accepted as being accurate, then Regulation Theory has a significant gap between structural crises which it sees as being significantly more serious and cyclical crises which are viewed as rather normal. Nonetheless, considering that this is not the overriding belief of the theory and that cyclical crises also point to problems within the system in almost the same way as structural crises, it could be said that this point is rather hypercritical.

In addition, it must also be mentioned that even though Regulation Theory is capable of explaining these developments within Greece, Turkey and even the United States, there are still a variety of problematic areas. As mentioned earlier in the thesis, many regulationists view their theory as not a theory but an approach or a framework. While at first glance this may seem to be an unnecessary difference, it points to a situation that becomes very apparent in a research of this type of scope.

Regulation Theory is considerably strong, without a doubt, in systemic analysis, especially in the cases of crises. The definitions of crises that it uses and its explanations as to how they occur, as well as other arguments that the theory puts forward such as the lack of perfect markets and the need to bring empirical evidence into the core of the analysis are vital. However, the Theory lacks, in the opinion of this thesis, significant depth. While concepts such as institutional forms, regimes of accumulation, modes of regulation and modes of development together create a network with which one can analyze entire countries, the factors that these concepts include are left outside of the scope of the theory. Thus, while regulationists may argue that concepts such as immigration, foreign relations or types of competition are parts of modes of regulation or regimes of accumulation, these concepts themselves are not elaborated on and often have no link to the overriding theory at all. Thus, as a result, an analysis which incorporates Regulation Theory is largely left to its own devices when analyzing specific developments. Admittedly this may be seen as a positive side to the theory especially if one remembers the fact that regulationists themselves speak of this phenomenon, but, once again, in the opinion of this thesis it points to a weakness in Regulation Theory overall.

However this does not mean that Regulation Theory is in direct contradiction with developments in the real world. The fact of the matter is that Regulation Theory gives the researcher a point of view with which to analyze entire systems and modes of development, the resilience of capitalism in the face of its crises, how capitalism reproduces itself and how crises occur and many other

concepts, however, in an in depth analysis that is empirical and concerned with a variety of different developments, Regulation Theory falls short of providing a coherent and encompassing idea.

In closing, to return to the point at hand, it can be stated that both the Turkish and Greek cases show problems within the wage-labor nexus, state intervention into the economy, credit and monetary relationships, inter-capitalist competition, the particulars of the international regime, all of which can be placed within the mode of regulation and the regime of accumulation under a Regulation Theory perspective. As a result, both of their economies required external aid and intervention, as the system had lost its ability to reproduce itself, due to fundamental contradictions. Consequently, it is the opinion of this thesis that both the Greek and the Turkish crises constitute a structural crisis, with the Turkish experience in 2008 showing that once these contradictions in its system were rectified, the country, at worst, went through a cyclical crisis, once again in line with Regulation Theory analysis. Finally, it is the opinion of this thesis that the use of Regulation Theory to analyze the particulars of these crises and the developments in the economies of Turkey and Greece is warranted as well as beneficial, as the wide scope that Regulation Theory employs fits the experiences of these two countries very well, despite at times falling short of being able to consistently analyze certain sections of their experiences.

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