ECONOMIC ISSUES IN

RETROSPECT AND PROSPECT

Jose R. Pires Manso
Ahmet Arif Eren

VOL. I

IJOPEC PUBLICATION
London ijopec.co.uk Istanbul

ECONOMIC ISSUES IN RETROSPECT AND PROSPECT

I

EDITORS

Prof. Jose R. Pires MANSO

Assoc. Prof. Ahmet Arif EREN

SEPTEMBER - 2018

ECONOMIC ISSUES IN RETROSPECT AND PROSPECT I

Prof. Jose R. Pires MANSO, Assoc. Prof. Ahmet Arif EREN

IJOPEC Publication Limited
CRN:10806608
615 7 Baltimore Wharf
London E14 9EY
United Kingdom

www.ijopec.co.uk
E-Mail: info@ijopoc.co.uk
Phone: (+44) 73 875 2361 (UK)
(+90) 488 217 4007 (Turkey)

Economic Issues in Retrospect and Prospect I
First Edition, September 2018
IJOPEC Publication No: 2018 / 24

ISBN: 978-1-912503-45-2

A catalogue record for this book is available from Nielsen Book Data, British Library and Google Books.

The publishing responsibilities of the chapters in this book belong to the authors.

Printed in London.

Composer: ***Çelebi Şenel***

Cover illustration created by Freepik

CONTENTS

PART III

GROWTH & DEVELOPMENT ECONOMICS

PART IV

MONETARY ECONOMICS

PART I

POLITICAL ECONOMY

PART I.

CHAP 1.

A NEW WAY OF NEOLIBERALISM

*Yeliz SARIÖZ GÖKTEN**

I. Introduction

The 2008 global financial crisis is named as a Great Depression. It was triggered by a mortgage crisis in the US, but that was not the cause. This crisis had a normal phase of a dynamic pattern of capital accumulation in which long booms eventually caused to long downturns (Shaikh, 2011: 44).

The capitalist system, as a result of its own inner contradictions, is undergoing periods of depression and expansion at certain periods. As the case for every global crisis, it is debated whether the system has come to an end. The 2008 crisis is the deepest crisis of global capitalism that has been experienced since 1929. The basic problematic here is where the post-crisis world order evolved. The generally accepted claim for this process is that the global order will revive itself and provide its continuity. Capitalism has became stronger after every crisis and many laps in its functioning have gone away. But at this point one should say that the contributions of China and BRIC economies, which have cheap labor and raw material resources that are effective in overcoming the 2008 crisis, are also diminishing. The neoliberal order, both economically and ecologically is no longer sustainable. Economically, consumption demand can only be sustained by continuous borrowing, and ecologically the extensive use of natural resources in BRIC and undeveloped economies is unsustainable. In this study, firstly the neoliberal order will be discussed and then the sustainability of the system will be questioned.

II. On Neoliberal Order

Between 1945 and 1973, global capitalism experienced the "golden age" with democratic institutions such as big government, class consensus, redistribution of wealth, and capital regulations. Under Keynesian capital accumulation conditions the early capitalist countries achieved rapid and steady economic growth, low unemployment, rising living standards. Peripheral and semi-peripheral countries were able to make considerable progress by implementing national developmentalist policies through "import-substitution" or "socialist" industrialization (Li, 2004: 30).

* Asst. Prof. Niğde Ömer Halisdemir University, FEAS, Department of Economics, yezsarioz@gmail.com

Again in this period, the consent of the working class has won by tying up economic growth and wages. In this process U.S., the only capitalist winner of the Second World War, was economically superior to other countries. In this process, peace between capitalist countries has contributed to the formation of a bipolar world order. While the Keynesian welfare state was in the West, socialism dominated in the East (Amin, 2011: 22).

For the 25 years after the World War II, Keynesianism represented the main paradigm for the determination of economic policy. In this era the conventional tools of monetary policy and fiscal policy were developed. The worker union membership rose to historical peak, and 'New Deal' institutions coverage in the area of social protection and regulations were expanded (Palley, 2005: 21).

Rapid growth of the economies and well functioning welfare state institutions provided a favorable conditions for the well-being and organization of the working classes. With the mid-1960s, capitalist world economy was confronted with a new economic and political crisis. By the 1960s, working-class militancy has rised in the core and the semi-peripheral countries. The profit rate have fallen worldwide. The Bretton Woods system collapsed and the global capitalism fell into a accumulation crisis in the 1970s. As Margaret Thatcher won the elections in Britain and Ronald Reagan came to power in the US, neoliberalism became the new normal in early capitalist societies in 1980s. In 1989, as the Berlin Wall has gone, the proponents of the ruling social and economic system celebrated the "End of History." Two years later, the Soviets collapsed. The collapse of the Berlin Wall symbolized not only the end of the Cold War but also the death of the global New Deal (Li, 2010: 294-295).

Neoliberalism is the dominant form of contemporary capitalism. Principally neoliberalism is based on the extensive and systematic use of state apparatus, under the ideological discourse of 'non-intervention'. According to Filho this hegemonic project of capital has imposed at five levels: domestic resource allocation, international economic integration, the reproduction of the state and ideology, finally the reproduction of the working classes (2011: 242-243).

The term of neoliberalism denotes new forms of political and economic governance based on the expansion of market dominance. The neoliberal order is based on minimal state principle. The best way of system operation will be provided through the market. Privatization and deregulation have also taken place in the name of the spread of market relations. In this new form of globalization of production relations and the financial system, it becomes difficult for the welfare state to fulfill its obligations to balance the destructive effects of the market. Instead of providing full employment and social welfare, states are striving for economic efficiency and competitiveness at the international level. The basis of this new understanding is individualism, freedom of choice, free market, market security, minimal state, privatization, unrestricted movement of financial capital, deregulation, decentralization (Larner, 2006: 199-201; Palley, 2007: 51; Kotz, 2009: 307).

Neoliberalism is not about developing a model that fits the real world. Instead, it aims to fit the real world into its own model. With post-Fordism, a new accumulation regime brought about by neoliberalism, information technologies has gained importance as the old-fashioned industries decline. Flexible production and flexible employment have become essential while the need for qualified workforce has increased. As the social and cultural structure has been reshaped, stratification and polarizations have increased (Clarke, 2007: 105; Amin, 2003: 4).

The ideology of neoliberal globalization is in circulation since the 1980s. In fact it was the very old idea that the world governments should get out of the way of large and efficient corporations. The first policy proposal was that all governments shouldn't resist these corporations to cross all the borders with their goods and their capital. The second policy proposal was that the governments should privatize productive enterprises. And the last policy proposal was all governments should minimize all kinds of social welfare transfer payments (Wallerstein, 2008).

Since the 1970s, the restrictions on financial movements have been abolished and institutional structures has been transformed. In addition to free foreign exchange regime, free world trade and free capital movements, privatisation and weakening of the negotiation power of trade unions, short term shareholder values have become the norm (Brie, 2009: 20).

The societies has never been fully kind to market fundamentalism. Following anti-globalization demonstrations in early 2000s the 2008 crisis hit the ideological hegemony of neoliberalism. The neoliberal understanding that gained strength after the collapse of the Bretton Woods System in the 1970s began to be questioned along with the US credit crunch (Stiglitz, 2008; Rucki, 2011: 335).

The recession began mainly in the US. American hegemony and excess liquidity enabled the government and ordinary Americans to borrow vast sums of money from the world. The increase in interest rates burst the real estate bubble and this triggered the crisis (Man, 2013a: 78-79).

The last crisis is different from the others in that it is a) an accumulation crisis b) an energy crisis c) a food crisis. Firstly concentration of the capital, especially in the last forty years, is noteworthy. The transformation of capitalism is very important. The first transformation is the centralization of the capital in the dominant sectors. It is clear that monopolies and oligopolies are not new in the history of capitalism. As a consequence of this in unipolar world order the conflicts between the imperialist countries has left its place to collective imperialism. The second result of this monopolistic tendency is related to natural resources. It would not be wrong to say that the resources are now scarcer than the old times (Amin, 2011: 25-26).

Due to the oligopolistic structure, the level of the finance has increased considerably, and the expansion in money and financial markets has led to a decrease in investments. As a result of the decline in growth the levels of unemployment and inequality have increased. The dominance of financialized oligopolies is the crisis of capital accumulation, which is based both on inadequate demand and the decline in profit level. No restoration is possible that would make the capitalist system the same as it was before the 2008 financial crisis. In order to overcome this situation, two conditions must be fulfilled. First, the states and the Central Banks must provide financial support to the system in very high quantities, which is astronomical. Secondly, this injection must be accepted by all sections of the society, which does not seem very possible (Amin, 2011: 30-31).

III. Neoliberal Destruction

Neoliberalism created favourable conditions for capital accumulation at an unprecedented level since the early 1980s. The successive economic growth periods made easier the concentration of power, income and wealth, in which prosperity for the wealthy coexists with old and emerging patterns of poverty. Accumulation in the leader countries of the Organisation for Economic Cooperation and Development (OECD) encounter declining rates of investment and Gross Domestic Product (GDP) growth. Increasing instability, frequent financial crises, culminating in the deepest and longest economic contraction and stagnation since the Great Depression. Recoveries is increasingly getting weaker. The Great Stagnation now engulfs the capitalist world economy (Filho, 2017).

Capitalism appears to be surviving the worst financial and economic crisis since the Great Depression. The rich countries experiencing a longer period of low growth than the depression. Top it all, the current crisis comes hard on the heels of lopsided financialization, weakening of social institutions, and growing inequality. These exacerbate the problems, and neutralizes the buffers that protect ordinary people from the effects of market's upheaval. Although the investors are still earning money and no states have gone bankrupt, the future is looking dark (Calhoun, 2013: 131).

All the neoliberal institutions led to an increased in inequality of the neoliberal decades. Deregulation of the sectors such as transportation, communication, and energy has caused to reductions in wages in related sectors. Deregulation in the international economy facilitated capital flights and intensified the competition of low-wage countries. Privatization of public services has shifted the permanent jobs to low-wage employees in contractor firms. Abandonment of fiscal policies that aimed low unemployment and flexible employment conditions have reduced working classes' bargaining power. Reduction in taxes on ruling classes increased after-tax inequality. In addition to these the attack on trade unions undermined bargaining power of working classes. The trend towards temporary and part-time employment replaced high-paid jobs with low-paid jobs. New jobs are created, but they do not suffice the number of jobs eliminated. Job retraining programs for displaced workers have failed to defeat structural unemployment (Collins, 2013: 41).

The benefits for the core economies have often been described as the appropriation of natural resources at low prices, the exploitation of the cheap labour by transnational and multi national companies, and the draining of the interest incomes resulting from the accumulated debts of semi-peripheral and peripheral countries. To this, privatization of the major and profitable public companies which allows transnational corporations to buy entire industries at low price like telecommunication must be added (Dumenil and Levy 2005: 18).

Again in the neoliberal period, much of the labor-intensive, energy-intensive, low and/or intermediate value-added industrial activity was carried to the semi-periphery of the capitalist world economy. The industrial working class, which is exposed to the most intensive capitalist exploitation, is in China[1] and other semi-peripheral states. Semi-peripheral countries are the most important source of world energy demand and greenhouse effect. Economic growth of semi-peripheral economies is depends on exports of energy and manufacturing goods to the core countries (Li, 2010: 299).

The aging of the world population, increase in medical costs, ethnic and regional conflicts, ecological crisis, intercontinental migrations, possible wars... How will these structural problems affect the system? Will the increase in middle-class employment and the creation of new job opportunities provide the continuation of capitalism? (Collins, 2013: 61).

At first sight the real estate, banking and financial crisis which appeared in the US has led to a questioning of the neoliberal ideology. New political and economic policies emerged from this crisis are the most important political and social problems at the present time (Brand and Sekler, 2009: 5). In relation to the uncontainable crisis many scholars began to talk about the "end of neoliberalism".

Perhaps the greatest destruction of neoliberalism has been on nature. The new organization of consumer society has multiplied demands for energy. These demands met especially by fossil fuels but at the same time by nuclear and other forms of energy. Dependence on scarce resources comes with the catastrophic environmental damage. The intensification of agriculture that boosts production commonly leads to soil erosion and threatens local farmers. And most of the activities that occured with capitalist growth leads to global warming (Calhoun, 2013: 154).

Nature always appears limited and capitalism appeared as a system of uninterrupted accumulation. Many social theorist argues that it has become obvious that the neoliberal or Post-Fordist forms of the appropriation of nature have caused a deep ecological crisis (Brand and Sekler, 2009: 10; Calhoun, 2013: 153).

The use of non-renewable resources such as natural gas and coal to be used in the production process will peak in a few decades. However, the conversion of these sources to liquid fuels

1 As regards the compatibility of working conditions in China with international norms see Gökten; Şahin, 2017.

significantly reduces energy efficiency and enhances the greenhouse effect. Nuclear energy is also an irreplaceable resource, leading to serious environmental pollution and security concerns. It can also only be used to generate electricity. Solar and wind energy can make limited contribution to the world's electricity needs. Finally, it should be noted that these sources can only be used to generate electricity and can not substitute for liquid fuel directly (Li, 2010: 296).

At the point where the capitalist system comes, climate change has a very big precaution. The greenhouse effect has a dimension that will affect the whole world, such as the gradual decrease of food and water resources, and the melting of glaciers in the poles, leading to sea floods. If capitalism continues to consume world resources, global warming will become a threat to human life in twenty and thirty years (Man, 2013b: 941).

The ecological reproduction crisis that Fordism had already based on is deepening. Focus on accumulation of material wealth and the extensive use of resources has speeded up. While the developed countries have not changed their accumulation model, emerging countries with huge populations are waiting to take on this outmoded accumulation model (Brie, 2009: 20).

The threat is global, greenhouse gas emissions is affecting everyone and everywhere. In addition to the above scenarios millions of people are dying prematurely as a result of global warming. Survival of a few poorer societies will be threatened unless humankind radically change the economic perspective (Man, 2013a: 93-95). More specifically nature has been regarded as a source in the emergence and flourishing of capitalism.. For capitalism nature is a resource to be exploited from forest to the water (Calhoun, 2013: 152).

IV. The Crisis of Neoliberalism: The Last Crisis of Capitalism?

The global capitalism is in deepest crisis since the 1929. Even the world's ruling elites have no doubt that we are at an important historical turning point. The neoliberal stage of capitalist accumulation seems to have come to an end. The basic problematic is where the post-crisis world order has evolved. Most academic circles believe that after the crisis global capitalism will restore itself successfully. The crisis has opened the door to a long period of global economic and political instability. At the end of this process, unravelling of the neoliberal institutional structure will lead to complex and intense conflicts and challenges between different social groups, classes and states. Undoubtedly, a new institutional structure will be formed as a result of these conflicts and struggles (Li, 2010: 290).

The capitalist order is now in the midst of a long period of economic and political instability. In the past, capitalist world economy has overcome the similar crises and has been restructured. The question is whether the current crisis will create "New Deal" with similar structures in the system. In three respects, the present conjuncture is different from 1945. First, after 1945, the United States became an indisputable hegemonic force. Compared to the previous great powers, it has benefited from great industrial, financial and military advantages, and its national interests have largely coincided with the common and long-term interests of the world system. Now the hegemony of the United States has fallen into an irreversible decline. However, none of the other great powers is in a position to take the place of the US and function as a hegemonic power. The neoliberal economy is in deep crisis and the ability to solve problems is strictly reduced. The question is whether restorative solutions will be developed or whether the rising powers will make a radical transformation (Brie, 2009: 20).

As it is well known, neoliberalism causes great social costs. Millions of skilled jobs have disappeared, hundreds of millions of people worldwide have moved to precarious jobs. Employment in the public sector becomes an exceptional opportunity, job stability diminished, and payment terms deteriored. The losers include informal workers, skilled workers worried about losing their jobs to other countries, indebted small business owners, small farmers, endangered mid-level managers (Filho, 2017).

Neoliberalism can not provide an institutional framework for sustainable capital accumulation at world scale. Besides neoliberalism undermines the institutions to stabilize the capitalism and ease social contradictions. Under neoliberalism, income inequality has reached record levels and working classes in many parts of the world have affected from absolute pauperization. The governments have implemented tight fiscal and monetary policies. All neoliberal governments seek to limit government expenditure. Governments that have problems in this area confronted with capital outflows and foreign exchange shocks. To summarize, in neoliberal economic policy all three components of global effective demand[2] are subject to downward pressures. The neoliberal era has seen violent financial crises in semi-peripheral countries. The Mexican crisis in 1995 was followed by other crisis. The Asian Crisis in 1997, the Russian and the Brazilian crises in 1998, and the Argentina crisis in 2001 are the well known crises. Perhaps the biggest crisis in the system was the US-based crisis in 2008. The mission of the global stabilizer has been undertaken along by the US Treasury and by US imports of goods increasingly in excess of countries' exports (Li, 2004: 23-24). This would not last long, as protectionist foreign trade policies intensifying in the current period threaten the resident codes of international trade.

According to the Kotz neoliberal institutions have led to three main developments. These are as follows: growing inequality, within the capitalist process between wages and profits; speculative activities dominate the finance sector; and finally a series of asset bubbles. All of which lead to long economic expansions and on the other hand provide the basis for systemic crises (2009:307).

The US government and American citizens owed very high amounts of money, ignoring interest rates, and ultimately came under an unsustainable debt burden. Second, the increase in interest

2 Global effective demand is the sum of three components: global private consumption, global private investment, global government expenditures (Li, 2004: 23).

rates caused the mortgage bubble to burst and the first shock experienced. The crisis began in the hegemon power of the system and therefore spread all over the world (Man, 2013b: 929).

Increasing income inequality, public debt crisis and the political oppression of social movements shows the structural limits of the global capitalism. The important question is whether this new wave of social unrest and system failure represents a transition into a new mode of production or a new form of capitalism (Dunn and Roberts, 2012: 259). In the coming years, the global class conflicts will determine how the current crisis of global capitalism will be resolved. There are three possibilities for this.

The first of these is the restructuring of the capitalist system. The global capitalist order will continue to be dominated by production for profit and uninterrupped accumulation. In this case, global ecological catastrophes will become inevitable and humanity will carry out its own suicide in a collective way. The second possibility is the end of the capitalist world order through the global class struggle. But humanity, however, will not succeed in building a new social system that is ecologically and socially feasible. A period of great chaos and barbarism will come. The third possibility is the realization of a new global system based on production for basic needs, characterized by ecological sustainable and economic, social and political democracy (Li, 2010: 303).

V. Is it Post-neoliberalism?

It is natural that the uncertainty about the future leads to questions about how the economic and social order will be shaped. We are confronted with a transition similar to what was called Post-Fordism in 1970s. Today the similar thing is happening but we do not know where we went from neoliberalism (Cecena, 2009: 34).

The destructive nature of the market has led to the extreme exploitation of both nature and human beings. Those who are settled in desertified regions have to leave their living space. Ecological catastrophe and human tragedy which had reached an extreme point. Neoliberalism met its decisive end with the crisis of 2008. According to Cecena, there is no return from it. Capitalist society dominated by the market forces plunders itself (2009: 33).

A systemic problem arose in the capitalist metropolises. High productivity gains will require redistribution of profits. The share of labor and public services will expand. When economic expansion reached its limits redistribution will come again on the agenda. Capitalist class would have needed to give up its supremacy or to create new investment initiatives. Counter policies aimed to reduce the power of working classes and the redistributional role of the welfare state will be implemented (Brie, 2009: 19).

This kind of neoliberalism has not come to end. Because the established institutional framework is still neoliberal. Policies to fight off with the financial crisis will protect neoliberal nature. The international economic and political institutions that restrain national solutions to deal with problems. Postneoliberalism as a counter-hegemonic project considering that various impacts neoliberalised social contexts and create a starting point for possible postneoliberal approaches (Brand and Sekler, 2009: 9-12).

The postliberal scenarios foreseen for now are as follows. First, US to want to respond to the crises with an aggressive extension of its superiority. But it may be too late for that. The second scenario is more probable and dominant strategy. It depends on the continuation of neoliberalism by other means. The third scenario is a kind of social democracy, which accepts finance capitalism but focuses on the social organisation of globalisation. The latest scenario for post-neoliberalism the transition to a societies based on solidarity principle (Brie, 2009: 22-25).

Even before 2008 global financial crisis it was evident that neoliberal policies had reached its limits. The golden period of the free market make possible the expansion of capitalist relations on a global scale. It guaranteed enormous profits for large-scale capital and eliminated almost all obstacles to private appropriation. Neoliberalism also created a more precarious labour market and the destruction of nature reached its peak. But after its innovative stage, the limits of its potential started to emerge. The ideological discourse of the free market was replaced by national security and national interest. The following characteristics represents a new stage of capitalism (Cecena, 2009: 35;38):

a) If neoliberalism continues to destroy nature in order to maintain its hegemony under the US sovereignty, it must rely upon military options day by day.

b) Secondly, this militarization will result in systemic risks arising from non-capitalist alternative social organizations, as well as other hegemonic coalitions that potentially challenge US leadership

The expected result has been a transformation of neoliberalism driven by the unanticipated results of existing policies and shaped by the current social and political struggles. International economic organizations such as the World Bank have been caught between the need to extend restructuring across social realms in order to empower the neoliberalism and to respond to the conflicts arising from restructuring. Undoubtly the unequal nature of neoliberalism will survive. New theories that rationalize neoliberal policy changes will be put forward (Taylor, 2009: 32).

Conclusion

In the first half of the 1970s, the “Golden Age” of the capitalist system was based on Keynesian policies came to an end and neoliberalism has become the dominant form of the system. The neoliberal order based on privatization, minimal state, deregulation, decentralization is successful in keeping the system up to the 2008 crisis.

Neoliberal institutions have further increased inequality. The deregulation throughout the period makes the developing countries vulnerable to capital flights, while the abandonment of the welfare state perspective has negatively affected the working class. The transition to a flexible production system as a consequence of the Post-Fordist accumulation regime also negatively affects the life and working conditions of the working class in most cases. Increased income inequality on the world scale could open up conflicts between classes and search for new social order.

The 2008 crisis has largely been overcome based on the growth performance of semi-peripheral countries like China. But China can not postpone the crisis of capitalism forever. Export-led sectors in the country are damaged due to the shrinkage of the global market and aggravating debt problem will leave China facing a major crisis. The third and final stage of the global crisis can happen with the collapse of China and the global capital market.

We are faced with the problem of the scarcity of resources all over the world because the capitalist system is based on the demand for consumption. When going from neoliberal to post-neoliberal order, the consumption of non-renewable resources should be reduced and the protection of the ecological structure should be promoted.

According to Wallerstein (2008) neoliberal globalization is a cyclical swing in the history of the modern world system. The question is not whether this phase is over. But the swing back will be able to restore a state of equilibrium in the capitalist world-economy? Or is it a damage that is impossible to restore and the world-system slide into chaos?

It is too early to predict the future of the world system, but neoliberalism will be transformed into post neoliberalism just as neoliberalism takes the place of the Keynesian economics. The 2008 financial crisis clearly showed the structural weakness in the system. The main goal should be to work towards the formation of a new and a fair world, taking into account the current state of non-renewable resources, rather than how capitalism is transformed.

References

Amin, A. (2003), Post fordism: Models, fantasies and phantoms of transition, Post Fordism A Reader, Edited by Ash Amin. Blackwell Publishers Ltd, 1-39.

Amin, S. (2011), Ending the crisis of capitalism or ending capitalism?. Translated by Victoria Bawtree, Pambazuka Press.

Brand, U. and Nicola Sekler (2009), Postneoliberalism: catch-all word or valuable analytical and political concept? – Aims of a beginning debate. Development Dialogue Postneoliberalism A Beginning Debate, No 51, 5-13.

Brie, M. (2009), Ways out of the crisis of neoliberalism. Development Dialogue Postneoliberalism A Beginning Debate, No 51, 15-33.

Calhoun, C. (2013), What threatens capitalism now?, Does capitalism have a future?, Oxford Univ. Press., New York. 131-161.

Cecena, A.E. (2009), Postneoliberalism and its bifurcations. Development Dialogue Postneoliberalism A Beginning Debate , No 51, 35-43.

Clarke, S. (2007), Neoliberal toplum kuramı. Editör Alfredo Saad Filho ve Deborah Johnson, Neoliberalizm Muhalif Bir Seçki, Çevirenler Şeyda Başlı ve Tuncel Öncel, Yordam Kitap, 91-105.

Collins, R. (2013), The end of middle class work: No more escape, does capitalism have a future?, Oxford Univ. Press., New York. 37-69.

Dumenil G. And D. Levy (2005), The neoliberal (counter-)revolution. Edited by A. S. Filho and D. Johnson, Neoliberalism A Critical Reader, Pluto Press London, 9-19.

Dunn, C.C. and A. Roberts (2012), The structural crisis of global capitalism and the prospect for world revolution in the 21st century. International Review of Modern Sociology, Vol. 38, No. 2, 259-285.

Filho, A. S. (2011), Crisis in neoliberalism or crisis of neoliberalism. Socialist Register,Vol 47, 242-259.

Filho, A.S. (2017), Global crisis, neoliberalism and left alternatives. Global Labour Colmn, http://column.global-labour-university.org/ (Accessed 12.07.2018)

Gökten, K. and Ç. E. Şahin (2017), Çin mucizesinde insanı aramak: ILO standartlarıyla Çin çalışma ilişkilerinin değerlendirilmesi. İş, Güç, Vol.19, No.2, 107-131.

Kotz, D. (2009), The financial and economic crisis of 2008: A systemic crisis of neoliberal capitalism". Review of Radical Political Economics, Volume 41, No. 3, 305-317.

Larner, W. (2006), Neoliberalism: Policy, ideology, governmentality". Edited by Marieke de Goede, International Political Economy and Poststructural Politics, Palgrave Press, 199-218.

Li M. (2004) After neoliberalism: Empire, social democracy, or socialism?, Monthly Review; New York Vol. 55, Iss. 8, 21-36.

Li, M. (2010), The end of the "end of history": The structural crisis of capitalism and the fate of humanity. Science & Society, Vol. 74, No. 3, 290-305.

Man, M. (2013a), The end may be nigh, but for whom?, Does Capitalism Have a Future?, Oxford Univ. Press., New York. 71-97.

Man, M. (2013b), The end of capitalism. Análise Social, Vol. 48, No. 209, 927-945.

Palley, T. (2005), From Keynesianism to neoliberalism: Shifting paradigms in economics. Edited by A. S.

Rucki, S. M (2011), Global economic crisis and China's challenge to global hegemony: A Neo-Gramscian approach. New Political Science, Volume 33, Number 3, September, 335-355.

Shaikh, A. (2011), The first great depression of the 21st century. Socialist Register, Fall, 47, 44-63.

Stiglitz, J. E. (2008). The end of neo-liberalism?. Project Syndicate Commentary, July http://www.projectsyndicate.org/commentary/the-end-of-neo-liberalism. (Accessed 12.07.2018).

Taylor, M. (2009), The contradictions and transformations of neoliberalism in Latin America: From structural adjustment to "empowering the poor. Post-Neoliberalism in the Americas, Edited by Laura Macdonald and Arne Rucket, Palgrave Press, 21-36

Wallerstein, I. (2008), 2008: The demise of neoliberal globalization. MR Online. (Accessed 10.07.2018).

PART I.
CHAP 2.
ONE BELT, ONE ROAD: CAPITAL EXPORT WITH CHINESE CHARACTERISTICS

Kerem GÖKTEN[*]

Introductıon

China has a major economic and social transformation with the "reform and openness” policy it launched in 1978. The most crowded country of the world, largely out of capitalist world economy, has been articulated to global capitalism with a decisive manner, especially with the 1990s. Although this articulation was more controlled regulated to ones in the Soviet bloc countries, the Chinese Communist Party (CCP) did not lose power. China, which was among the poorest but most egalitarian countries of the world before 1978, has shown an impressive growth performance until recently. The country becomes the upper- middle income country since 2010 based upon the World Bank classification[1].

It is expected that China, which has achieved the most uninterrupted and high growth performance in world economic history, will be the world's largest economy in the mid-range[2]. Until ten years ago, the country, which is known as the manufacturing base of the world and its biggest exporter, has begun to change this picture because of the transformation of its economic structure. Besides China is also now the world's second largest importer and is the net capital exporter since 2014, according to official figures (NBSC, 2015).

China's impressive growth performance brought with it a number of problems. Unfair income distribution, bad and precarious working conditions, internal migration and rapid urbanization, environmental degradation are the most important among them. These problems seriously overshadow the improvements in material well-being elements.

The falling growth rates were also added to the problems listed above. The country's economy is unlikely to return to the growth periods of the past exceeding 10 percent. The country has grown around 6 percent since 2015. According to World Bank estimates, the growth rate until 2020 will remain at this level (The World Bank, 2018b). Despite these growth rates representing the critical threshold, the CCP maintains its power without encountering a serious social unrest.

* Dr. Faculty Member, Nigde Omer Halisdemir University

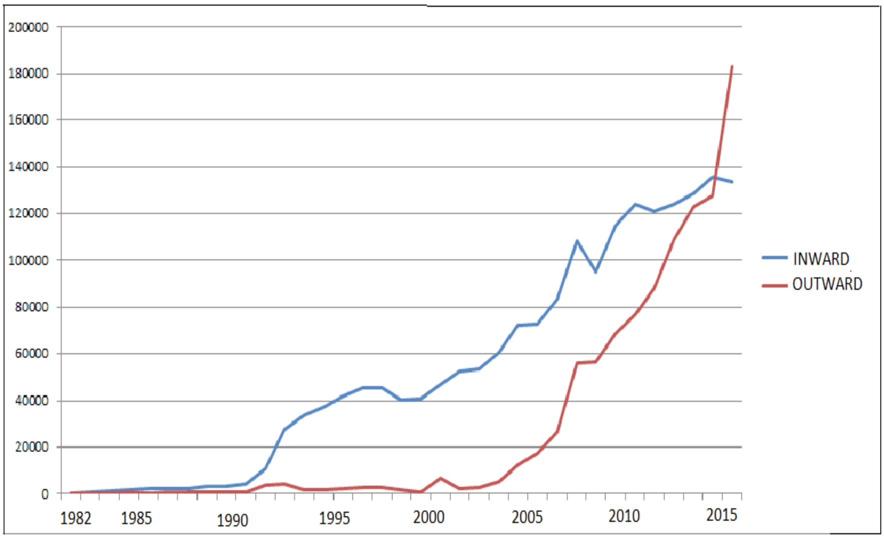
1 As to the evolution of China's place in the country classifications of the World Bank see. World Bank database https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups

2 According to the purchasing power parity (PPP), China has left the United States (U.S.) behind in 2013 (The World Bank, 2018a)

One of the structural problems that the Chinese economy has faced since the 1990s is overcapacity. The permanent current account surplus of the country makes it necessary to find new valuation areas of finance capital surplus. In this process, a great waves of urbanization and infrastructural investments surrounded the country. These investments led by local governments normally create a significant profit opportunity for the banking system, but the difficulties in repaying the debts are making the financial system fragile. Efforts to evaluate excess financial capital through sloppy credit expansion has been triggering excessive capacity (Oktay, 2017, 210-212).

The CCP regime has moved beyond the borders of the country to create new areas of valuation in excess of capital. Since the "Going Global" strategy (also referred to as the Going Out policy) launched in 1999, the country has been called as a direct capital investor. When "Going Global" strategy began to be implemented in 1999, the ratio of outward direct investments to inward foreign direct investments was 4.4 percent only. Outward direct investments have entered a stable upward trend since 2003. The trend of the increase in the direct capital investments of the country has not reversed even the 2008-2009 global financial crisis (UNCTAD, 2018). Figure 1 compares the amount of direct capital investment hosted by China and the amount of direct capital investment it has undertaken outside the country. According to UNCTAD data, the country has become a net capital exporter in 2016. In other words, a country that had almost no direct investment outside the country before has undergone a dramatic structural transformation in less than 20 years.

Figure 1 China's Inward and Outward Direct Investments, 1982-2016 (million USD dollar).



Source: UNCTADStat database

It would not be enough to say that the only reason for the country to be a direct capital exporter is to eliminate the production overcapacity. Chinese firms also tend to outward direct investments to gain access to natural resources and energy fields, to acquire technology and know-how, to avoid internal competition, to enter new markets and to overcome trade barriers (Salidjanova, 2011, 6-11). It is also possible to see that in some acquisitions and mergers, more than one objective is intertwined.

China's direct capital investment leap, which began with the "Going Global" strategy, entered a new phase with OBOR initiative. OBOR, perhaps the greatest development initiative of modern times, is called "Going Global 2" (China Policy, 2017, 6). OBOR initiative begins with the comments made during a speech by President Xi Jinping's visit to Kazakhstan in late 2013 (Ploberger, 2017, 293). OBOR, a new investment and trade push, has two components: the "Silk Road Economic Belt" and the "Twenty-First Century Maritime Silk Road". OB denotes land silk roads stretching from China to Europe; OR is a sea route including China, India, Indonesia, east parts of Africa, and Europe (Chaisse; Matsushita, 164, 2018).

In this study, a general discussion will be made on the dynamics for the emergence of OBOR, then the emphasis will be on the initiative in terms of China's capital accumulation strategy. Possible effects of OBOR on the global capitalist system and the interstate system are other issues to be addressed in the study.

OBOR: Principles and Objectives

Xi Jinping's the most ambitious political and economic development initiative OBOR aims building of "a Silk Road Economic Belt and a 21st Century Maritime Silk Road". OBOR initiative is rooted in historical routes, an extensive network of sea and land trade routes that once linked China with the Asia, and Africa to Europe before 1600's (Yu, 2017, 353-355).

OBOR as an infrastructure initiative basically intends to connect China's backward regions with neighbouring countries. Beijing also aims to connect the foregoing regions to Europe through Central Asia. This route is referred as the Silk Road Economic Belt. The other component of OBOR initiative aims to build a 21st Century Maritime Silk Route which will connect the Southeast Asian to China's southern provinces by way of ports and railways, namely the Indochina Corridor. Maritime Silk Route also are going to be extended to the Mediterranean Sea through the activities to be established in Persian Gulf and on the Red Sea. Piraeus, Nairobi, Calcutta, Port Said and Jakarta ports are the most important logistics bases of the Maritime Silk Route (Theofanis; Boile, 2014, 21-22; Cai, 2017, 2-4).

It is planned to invest $ 1 trillion in this routes for the initiative. The initiative concerns more than 60 countries. About 20 of these countries are closely related to the initiative. This huge investment move includes high-speed trains, power plants, harbor expansion, highway construction and infrastructure investments (van der putten, 2016, 339; Perlez; Huang, 2017).

Although it had been officially launched in 2013, OBOR's road map released in 2015.OBOR initiative is claimed to be a win-win cooperation that connecting the emerging East Asia economies at one end and developed European economic area at the other. Mutual respect for each other's sovereignty and territorial integrity, mutual nonaggression, mutual non-interference in domestic affairs, equality and reciprocal benefits, and peaceful coexistence are stated the main principles of the initiative (The National Development and Reform Commission, 2015).

These objectives of the Initiative are criticized with very different assessments. It seems that, the open-ended formation of OBOR has undoubtedly been an important influence. The Chinese government aims to create economic synergy through huge infrastructure program. The CCP is also aspiring to overcome the chronic overcapacity problem, and to find new valuation areas for finance capital surplus. The CCP regime has come to a conclusion that the low-value-added production-based strategy reached its limits. China's traditional comparative advantage based on cheap labor is belived to be eroding. For this reason the economy is restructured in a more technologic direction. OBOR buys China extra time for industrial restructuring and upgrading. In addition to these China has focused on exporting its national standards to neighboring countries (esp high-speed railway technology) (Cai, 2017, 8-10; Yu, 2017, 360; Zhang, 2017, 316). Besides economic goals, many analysts argue that China has geopolitical and geostrategic purposes. It has been suggested that China is prepared to expand its sphere of influence on the periphery and to emerge as a revisionist state that will challenge the US hegemony over time (Ploberger, 2017, 289-290).

The One Road

Beijing plans to link the undeveloped western provinces of the country to Europe with the Silk Road Economic Belt. Until recently, the government is struggling to connect the western region of the country to the more developed eastern region. The government, which does not want to transfer more resources from central budget, is trying to find a new way to tackle this issue. In this context western China is planned to be linked to South Asia through a regional production chain (Cai, 2017, 7).

Xinjiang is a core region on the Silk Road Economic Belt. It will be the window to the West. The region's mission is to promote communication and cooperation with Central, South and West Asian countries. In this process, the provinces of Shaanxi and Gansu Ningxia autonomous regions has strategic importance with the goal of creating trade and logistics hubs and bases for industry. Besides Inner Mongolia has critical importance for construction of the railway network that is connecting Heilongjiang Province to Russia. The construction of an Eurasian rail transport corridor linking Beijing to Moscow is the other big investment project of the component The One Road (The National Development and Reform Commission, 2015).

Central Asia and its ties in with China and Russia is a multidimensional issue. China has a strong interest in securing access to region's energy resources and supply routes. Although China increases the commercial activity in the region, its moves are restricted by Russia. Russia still regards the Central Asia as belonging to its sphere of influence. In this context the Eurasian Economic Union (EEU) that aims Eurasian integration was founded in Astana in 2014. In other words, it can easily be argued that OBOR is an alternative initiative to EEU. Infrastructure investments to be made within OBOR initiative would reduce the region's dependence on Russia (Ploberger, 2017, 294).

Nonetheless Russia and China leaders, at least for now, tend to see OBOR and EEU as complementary double integration movement, not rivals. The two countries is studying for linking OBOR initiative to the Russia's EEU project (Wu, 2017). On May 8 2015 as Putin stated, "we think that the Eurasian integration project and the Silk Road Economic Belt project complement each other very harmoniously' adding that we 'will create a common economic space across the entire Eurasian continent". Although diplomatic statements are welcomed by central Asian countries, it is important how the investment process is managed. The imbalance in relative expected earnings would create disappointments even when economic gains are rising for all parties (Ploberger, 2017, 295).

The One Belt

The maritime root of the Silk Road stretches from southern China to the port of Piraeus. Strategic maritime routes and ports, like the Malacca Strait and the Suez Canal and Gwadar, all of these territories where the territorial tension can rise. When it comes to maritime trade routes and ports, security concerns are on the agenda for all parties. The People's Liberation Army Navy has been planning to provide access to naval facilities along the Maritime Silk Road and aims to increase its regional and global reach. China's engagement with maritime infrastructure investments will lead to a foster of connectivity along the sea trade routes for Chinese merchant fleet (Ploberger, 2017, 296).

Maritime Silk Road offers a more favorable ground for geopolitical and geostrategic debates compared to the component "The One Road" . OBOR's flagship project, the China-Pakistan Economic corridor, is the most prominent example of this. The China-Pakistan Economic corridor is expected to connect China's far west with the Port of Gwadar of Pakistan. The project expected to be amounting to 46 billion USD also includes the upgrading the Karakoram/N35 highway and the construction of railways and pipelines to connect Pakistan to western China. The proximity of Gwadar's to the Persian Gulf, it could also be easily used as a transhipment center for China's energy supplies by bypassing Strait of Malacca. The US diplomatic circles frequently focus on the possibility of Gwadar being used as China's naval base (Chan, 2017, 575; Cai, 2017,4; Chan, Lee 2017, 23-24).

South Asia is not the only geographical region that has strategic and commercial significance for China. Southeast Asia is a region with strong political and cultural ties with China, as well as strong economic interests (Ploberger, 2017, 297). The region formed by the members of Association of Southeast Asian Nations (ASEAN) is also a kind of mined field due to the strong influence of the US. Yunnan province symbolised a strategic location for China–ASEAN relationship. With the good use of the geographic advantage of Yunnan Province China can play a decisive role within the Greater Mekong Sub-region (The National Development and Reform Commission, 2015). Beyond the infrastructure projects and transport corridor, China and ASEAN members focused on creating industrial zones to enhance economic integration and interregional trade (Ploberger, 2017, 298).

OBOR does not represent an original strategy, but tries to navigate through existing regional relations and frameworks. The success of the initiative is not solely dependent on China. Infrastructure investments are very important for countries participating in OBOR. Although these countries needs financial resources in the development process, they may react against China's possible geostrategic considerations (Ploberger, 2017, 299).

The financing of the project as a matter of itself, occupies the agenda of the international public. To ensure the financing of the OBOR projects, China pioneered the establishment of the Asian Infrastructure Investment Bank (AIIB). The motivations behind China's contemporary Silk Road vision and the establishment of the AIIB attract great attention both media and diplomatic circles (Yu, 2017, 355).

The AIIB, which has its headquarters in Beijing, was officially launched with a signing ceremony where 21 founding members came together. According to the founding treaty, China's voting share over 26% by reason of its largest contributer position of 29.78 billion USD. This provides to China de facto veto power in the AIIB. A minimum rate of 75% of total votes are required in order to amend the treaty, revision of the contribution rates of members, and for other major changes. With the AIIB, China is extending its geoeconomic sphere of influance. China's considerable financial resources are increasing the global and regional momentum of the OBOR. Many Asian and African countries are lack of funding hence they have been eager to access to financial support for large-scale infrastructure projects, with the exception of Japan. The World Bank and the Asian Development Bank (ADB) do not have adequate fund to meet this level of investment demand[3]. The AIIB is aspire to overcome the lack of funds (Yu, 2017, 359-360; Chan, 2017, 568-569).

As a country having permanent current surplus, China claims a bigger role in the international financial system. China is trying to establish parallel financial institutions in face of the U.S. dominated financial order, which is reluctant to reform itself. The establishment of AIIB has caused a disagreements between the United States and its allies. The United States has taken a

3 The Asia's annual demand is around 800 billion USD for infrastructure, but the ADB has only approved 13.5 billion USD (Tsui et. al, 2017, 43).

different attitude while its close allies such as England, Germany and France have supported the establishment of the Bank. The US suggests the AIIB is a vehicle for China to promote its sphere of influence across Asia. The US government foresees that the AIIB will not work in harmony with the Bretton Woods institutions and the ADB. The United States has established diplomatic pressure not to join the AIIB over its close allies, but these efforts seem to have failed (Yu, 2017, 361; Chan, 2017, 569; Tsui et al., 2017, 40-41)[4].

In terms of internal dynamics, the AIIB provides investment opportunities for Chinese capitalism. China is pouring billions of dollars in investment into Asian countries. Activities of public and private companies of China extend from infrastructure construction, agriculture, mining and manufacturing to service and retail business. China also diversifies its energy and raw materials supply (Yu, 2017, 360).

Moreover, the implementation of OBOR can help to boost China's slowing economy by increasing foreign trade and outward direct investment. Implementing the infrastructure projects supported by the AIIB will help to absorb China's massive excess capacity especially in iron and steel industry (Yu, 2017, 360).

Map 1 Potential routes of OBOR

Source: http://www.xinhuanet.com/

4 Faced with the attacks of the United States, there has been a change in official statements. Xi expressed: "The AIIB is an international financial institution whose rules of operation are decided by its members through consultation, not by China alone" (Reuters, 2015). China calls for U.S. and Japan to join the AIIB to strengthen the bank's legitimacy and capital structure (Chan, 2017, 574).

The Challanges Facing OBOR Initiative

It can easily be argued that OBOR can not be put into practice quickly. Attempts are made to speed up the model projects that will increase the prestige of the initiative and demonstrate its applicability. President Xi is not satisfied with the current implementation of the initiative. The initiative faces multiple and strong challenges (Cai, 2017, 15).

First of all, there are confidence crisis between China and the important countries of the region. India is at the head of the Asian countries where the lack of political trust is experienced. India is disturbed by the convergence between China and Pakistan with which relations are not good. The fact that the China-Pakistan economic corridor will reach the western part of the Indian Ocean will mean the bypassing of traditional trade routes. Among them is the Strait of Malacca, which is very important for Singapore and draws attention. The concerns of India and Singapore are also shared by the United States, which continues its strong influence in the region (Cai, 2017, 15; Tsui et al, 2017, 38). In spite of these problems, neither India nor Singapore have a clear attitude towards OBOR. The opportunities for economic cooperation offered by the initiative require that relations be maintained at a certain level. Another problematic area is the ASEAN region. China's continental shelf disputes with Vietnam and the Philippines still continues. Despite the highlights of the Chinese leadership's peaceful settlement of the South China Sea continental shelf problem, the tension with Vietnam is rising from time to time. ASEAN countries are very sensitive to China's increasing the political and military presence in the region, despite the fact that they open the door to opportunities offered by Chinese capital (Ploberger, 2017, 298-299).

China is also limited in Central Asia by Russia's unsteady politics. This country, culturally, politically and economically situated in close proximity to Europe, did not initially give close attention to OBOR. Russia, which faces the Ukrainian crisis and the sanctions of the US and Europe, as well as its oil and natural gas incomes are eroded, is changing its position towards the OBOR initiative. It is a fact that it is not possible for China to open a new inland Silk Road without Russia's active contribution (Tsui et al., 2017, 37).

Another risk area in front of the OBOR initiative is security issues. Investing in Pakistan and African countries is risky in terms of personnel safety and return on investments. The economic losses in Libya, Sudan, Botswana and Laos, the bureaucratic obstacles in Mexico and Sri Lanka push the Chinese financial circles to be cautious. Beyond the security risks, even state banks have reluctantly approached to the financing the projects where profitability problems have come to the forefront. Investing and lending to politically unstable countries such as Kenya, Sri Lanka, Ethiophia has become risky because of the non-performing loans of the Chinese financial system. Beijing is now inclined to look at the non-profit Indonesian high-speed train project, which has been highlighted by the initiative's prestige and its efforts to adopt its own standards, as an exception. Chinese financiers are demanding strict terms to ensure that projects have long term sustainability. For example negotiations with the Thai government about the building of an assertive rail project were failed by disagreements over interest rates (Cai, 2017, 15-16; Tsui et al., 2017, 40; Prodi, 2015, 2; Sheehan, 2017).

The official ideology of OBOR initiative can be summerized as “peaceful coexistence”. The main objectives to promote economic cooperation are on the premise of infrastructure investments. However, a number of questions arising from the hybrid structure of Chinese capitalism and the domestic contradictions come to the fore. Can China realize infrastructure investments that favour local development? How China will balance diversity and sustainability with the interests in its export markets? It is unclear how the need to absorb excess capacity will affect the production structure and industrial relations of neighboring countries (Tsui et al., 2017, 44; The National Development and Reform Commission, 2015). The CCP is conscious that OBOR is a hard mission, the countries involved must act in concert. There are conflicting interests in the region and there is a risk that they will damage the potential gains of the initiative. Other constraints aside, this is a synchronization problem in itself (Bijian, 2017, 30; Ploberger, 2017, 303).

Geopolitics vs. Geoeconomy

The OBOR initiative has become the most controversial area of global political economy since it encompasses a vast geography stretching from East Asia to the Mediterranean. The realist and neorealists who treat states' actions through the power concept regard OBOR as China's most ambitious attempt to become a revisionist force. According to those who approach the geopolitical and geostrategic point of view, OBOR is an attempt to gain influence over the countries in the periphery of China.

Analysts are trying to explain the intentions behind initiative argued that OBOR could be used as a geostrategic tool to counter the Obama administration’s central foreign policy initiative “pivot to Asia”. Another thesis suggests that China is trying to bring together the countries isolated from the US-led Trans-Pacific Partnership (TPP). However, Donald Trump’s decision to cancel the TPP after he becomes president will help the Chinese leadership to sell the initiative more conveniently. Indeed, US allies like Singapore and the Philippines have been disappointed by Trump's decision and have begun to develop warmer relations with China (Cai, 2017,5; Blanchard, 2016; Chan, 2017, 582).

The problem with deterministic geostrategic interpretations of OBOR to overemphasis geostrategic dimensions of the initiative, while underappreciating the economic vision of OBOR. But there are so many economic objectives behind OBOR and these should not be trivialised by a focus on strategy. China is using OBOR to consolidate its regional leadership through a vast program of investment and economic integration. China aims is to establish a regional production chain and be a centre of advanced manufacturing and innovation without imposing any institutional structure (Cai, 2017,5, 17). China is aware of the reality despite its increasing economic power and rising diplomatic profile. While the country is structuring the institutions such as the AIIB and the Silk Road Fund, it emphasizes complementarity rather than rivalry (Tsui, 2017, 38). There is insufficient evidence supporting China's assertion that it will aspire to the hegemonic position of the United States[5]. The country also does not seek to create a China-centric financial order, although it demands stronger position in international financial institutions. It can be said that China has developed a soft economic balancing strategy instead of a German and Japanese style hegemonic challenge. The vision statement refers to strengthening the weak performance of the global economy after the 2008 financial crisis. In other words, it uses expressions for the general benefit of the global capitalist system (Chan, 2017,581; The National Development and Reform Commission, 2015). As Ploberger argues that "…the 'OBOR initiative' can be interpreted rather as an umbrella framework for a diverse range of different policy initiatives, rather than China's new geopolitical strategy. At least for now" (2017, 302).

The inner conditions of Chinese capitalism also cause the geoeconomic dimension of OBOR to be overweighed. The fundamental changes that Chinese capitalism has experienced and the evolution of the relations with the capitalist world economy should be considered as a whole. From this point of view, Going Out and especially OBOR is a central state-sponsored initiative to prevent the potential crisis of the Chinese economy and to promote the level of internationalization of the economy (Zhang, 2017,313-315; Cai, 2017,3). China's "Marshall Plan" anticipates reconfiguring its geographic vision in the process of capital accumulation and moving it to a larger spatial dimension (Zhou, Hallding, Han, 2015).

Excessive capital accumulation and expansion have caused serious economic and social problems. Immigrant workers, increasing regional income inequalities, environmental degradation, local government debts and so on. Adding to all these, the economy's capital output ratio is on the rise, it rings alarm bells (Zhang, 2017, 317; Chacko; Jayasuriya, 2017, 95). In China where overaccumulation occurs at a critical level capital accumulation under the old economic model is not sustainable. Chinese capitalism is trying to solve the capital glut by geographical expansion. Within this framework OBOR is the new stage in Chinese capital circles' engagement with a Harvey's "spatial fix" (Harvey, 1982, 427-428; Zhang, 2017,319). In sum, because of its priority in overcoming this problem, China tends to expand its sphere of influence with commercial relations.

5 See for historical discussion on hegemonic transitions Gökten, 2013.

Conclusion

OBOR, which has not yet received sufficient implementation results, is an important investment initiative for both global capitalism and the countries under the project scope. The initiative that China has undertaken while restructuring its economy may play an important role not only in overcoming the shortage of global demand but also in alleviating the problems of countries that are in need of outsourcing in the development process. When foreign policy objectives and historical heritage are added to the problems of investment planning and financing, the initiative is strongly obstructed. The success of OBOR, which has spread to a very wide geographical area, seems to depend not only on China but on the mutual trust and connectivity between countries with very different economic and social structures. The Chinese leadership is aware of the geopolitical competition that will do the most damage to OBOR, which will be extending to a group of countries with so many different interests. Thus, OBOR seems to contribute to the rising trend towards the multipolar world to the extent that it is realized.

References

Bijian X. (2017), China's "one belt, one road" plan marks the next phase of globalization, NPQ, Summer, 27-30.

Blanchard B. (2016) Duterte aligns Philippines with China, says US has lost, Reuters, 20 October, http://www.reuters.com/article/us-china-philippinesidUSKCN12K0AS. (13.07.2018)

Cai P. (2017) Understanding China's belt and ioad initiative, Sydney: Lowy Institute.

Chacko P. and Jayasuriya K. (2018) A capitalising foreign policy: Regulatory geographies and transnationalised state projects, European Journal of International Relations, 24,1,82-105.

Chan L. (2017) Soft balancing against the US 'pivot to Asia': China's geostrategic rationale for establishing the Asian Infrastructure Investment Bank, Australian Journal of International Affairs, 71,6, 568-590.

Chaisse J. and Matsushita M. (2018) China's 'belt and road' initiative: Mapping the world trade normative and strategic implications, Journal of World Trade, 52,1,163-186.

Chan L.and Lee P.K. (2017) Power, ideas and institutions: China's emergent footprints in global governance of development aid, CSGR Working Paper, 281/17, CSGR, University of Warwick.

China Policy (2017) China going global between ambition and capacity, Beijing: China Policy.

Gökten Y.S. (2013) Hegemonya ilişkilerinin dünü bugünü ve geleceği: Neo-Gramsci'ci bir bakış, Ankara: NotaBene

Harvey D. (1982) Limits to capital, Oxford: Basil Blackwell.

NBSC (2016) China Statistical Yearbook, Beijing: NBSC.

Oktay F. (2017) Çin: Yeni büyük güç ve değişen dünya dengeleri, İstanbul: İş Bankası Kültür Yayınları.

Perlez J.; Huang Y. (2017) Behind China's $1 trillion plan to shake up the economic order, The New York Times, 13 May.

Ploberger C. (2017) One belt, One road – China's new grand strategy, Journal of Chinese Economic and Business Studies, 15:3, 289-305.

Salidjanova N. (2011) Going out: An overview of China's outward foreign direct investment, USCC Staff Research Report, March 30.

Prodi R. (2015) A sea of opportunities: The EU and China in the Mediterranean, Mediterranean Quarterly 26,1, 1-4.

Sheehan S. (2017) The problem with China's one belt, one road strategy, The Diplomat, May 24.

Reuters (2015) Exclusive Q&A with Chinese president Xi Jinping, 18 October , accessed 9 July 2018, http://www.reuters.com/article/us-china-britain-xi-q-a-idUSKCN0SC03920151018.

The National Development and Reform Commission (2015) Vision and actions on jointly building Silk Road economic belt and 21st century Maritime Silk Road, 25 March, file:///G:/one%20belt/Vision%20and%20Actions%20on%20Jointly%20Building%20Silk%20Road%20Economic%20Belt%20and%2021st-Century%20Maritime%20Silk%20Road.html

The World Bank (2018a) Database, https://data.worldbank.org/ (10.06.2018).

The World Bank (2018b) Global economic prospects, http://www.worldbank.org/en/publication/global-economic-prospects#data (15.06.2018).

Wu W. (2017) Beijing's new Silk Road may extend to Moscow-led Eurasian union, South China Morning Post, 02 July, http://www.scmp.com/news/china/diplomacy-defence/article/2100968/beijings-new-silk-road-may-extend-moscow-led-eurasian (28.06.2018).

Theofanis S. and Bolie M. (2014) The Maritime Silk Road Ini1a1ve and the Mediterranean: Strategies, tactics and challenges", Shipping, May, 20-22.

Tsui S. et al. (2017) One belt, one road China's strategy for a new global financial order, Monthly Review, January, 36-45.

UNCTAD (2018) UNCTADstat database, http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx (17.06.2018).

Van der Putten F.P. (2016) Infrastructure and geopolitics: China's emerging presence in the eastern mediterranean, Journal of Balkan and Near Eastern Studies,18, 4, 337-351.

Yu, H. (2017) Motivation behind China's 'One Belt, One Road' Initiatives and Establishment of the Asian Infrastructure Investment Bank, Journal of Contemporary China, 26:105, 353-368.

Zhang X. (2017) Chinese capitalism and the Maritime Silk Road: A World –Systems Perspective, Geopolitics, 22, 2, 310-331.

Zhou J., Hallding K.and Han G. (2015) The Trouble With China's 'One Belt One Road' Strategy, The Diplomat, June 26.

PART I.

CHAP 3.

ECONOMIC NATIONALISM: INTERNATIONAL POLITICAL ECONOMY AND STRATEGIC RESOURCE POLICIES

*Orhan ŞİMŞEK**

1. Introduction

"State politics and the market are obviously different from each other even if they are the distinctive elements of the modern world as embodied forms of the economy."

R. Gilpin

International political economy (IPE), which examines the interaction between the state and the market and is embodied in the 1970s, is expressed by the approaches taken from the origins of the previous centuries. Theories and movements such as mercantilism, liberalism and Marxism, are important tools for explaining the process in the twentieth century. In particular, it was possible to explain the economic order that emerged in the framework of the globalization wave that began in the 1980s as an axis of liberalism. Globalist approaches are express that the liberal order predicting the unlimited movement of capital, instead of the loss of importance of nation-states. However, in the globalised economy that is already integrated with the process of globalization, free markets, liberal norms seem to work, but governments continue to apply conservative economic policies.

In this framework, the growing need for IPE has increased as the 1980s, under the assumption that the relationship between globalization process and nation-states is being discussed from different perspectives. The oil shocks in the 1970s and the end of the Bretton Woods system and the debates of the new international order brought the IPE to become an independent social science discipline (Al, 2015). The world economy, which has become complex and interdependent with oil crises in 1970s, has been required to evolving of traditional approaches within the framework of IPE to analyze the global dynamics. Mercantilism, which has become the basic approach of this field which examines the relation between politics and economics at international level, states that the world economy and international politics are inseparable (Hettne, 1993: 240).

Main perspectives of IPE is summarized in Table 1, since the detailed study of the development and basic approaches of the IPE is beyond the scope of this study.[1] As it can be seen in

* Assist. Prof., Artvin Çoruh University, Department of Economics, simsekorhann@gmail.com

1 For the historical development of the International Political Economy (IPE) Gilpin (2001, 2017), Cohn (2012), Balaam and Dillman (2015), O'Brien and Williams (2016).

Table 1, mainly IPE approaches are considered as mercantilist (economic nationalist), liberal and critical theories. The situation in the post-1980 world economy and the state-market relation are analyzed by liberal norms. National developmentalism after the Second World War is also expressed in terms of import substitution-oriented rise of economic nationalism. Of course, these approaches are divided into various variations, but they are usually expressed in this way.

Table 1. Main Perspectives of IPE

Aspect	**Economic Nationalist**	**Liberal**	**Critical**
Historical Origins	15th century	19th century	19th century
Major figures	Hamilton, List, Krasner, Gilpin, Strange	Smith, Ricardo, Kant, Wilson, Keynes, Hayek, Keohane, Nye	Marx, Lenin, Frank, Cox
Variants	Mercantilism, realism	Free trade, interdependence	Marxism, feminsm, environmentalism
Human nature	Aggressive	Cooperative	Malleable
Units	States	Firms, states, NGOs, IGOs, individuals	Class, gender, planet, global capitalism
View of the state	Unitary actor	Pluralist state: diverse interst	Representative of class interest groups
View of TNCs	Beneficial/harmful	Beneficial	Exploitative
Behavioural dynamic	State as power seeking rational actor	Individual as rational actor but outcomes not always optimal	Dominance and exploitation within and between societies
Market relations	Potentially negative	Positive	Exploitative
System structure	Anarchy/conflictual	Cooperative/ interdependence	Hierarchy/conflictual
Game metaphor	Zero sum	Positive sum	Zero sum
Hegemony	Importance of a dominant state	Post-hegemonic cooperation	Hegemony in state and society
International institutions	Not very significant	Important	Serve interests of wealthy (states, firms and classes)

O'Brien ve Williams, 2016: 20

In the light of the results of the wave of globalization, the aims of the international political economy have evolved as shown of the above. Although globalization is considered as a controversial concept, it has become a reality of post-1980 world economic policy. The biggest debate in the globalization process, shaped by neoliberal policies, has been related to the role of the state.

While the liberals treat the neo-liberal globalization process as a model of capitalism, the realist / mercantilist perspective argues that each country is its own model of capitalism (Cohn, 2012: 58).

2. International Political Economy and Mercantilism / Economic Nationalism

Mercantilism, which is the oldest of the basic approaches of international political economy, is an important means of explaining major developments in present-day global capitalism.[2]

It is also possible to see this in the mercantilist approach, such as the separation of each thought and the system into various types within itself. Moreover, the concept of mercantilism can be replaced by many other concepts. For example, O'Brien and Williams (2016) indicate that mercantilism is used in the same sense as statism, neo-mercantilism, and state-centrists besides economic nationalism. Gilpin (2017) regards mercantilism as direct economic nationalism. This is in fact related to the evolution of mercantilist economic thought. In this work neo-mercantilism and economic nationalism will be used in the same sense.

The main focus of economic nationalism is the state's international political and economic power and national interests (O'Brien and Williams, 2016: 8). In fact, mercantilism is an approach that explains the state and market relations of the IPE, namely the power and well-being (Gilpin, 2017), via the role of the state.

The increasing liberal trends with globalization have brought this mentality back to the point that the recent global economic developments and the re-emergence of the statist economic models, while economic nationalism is backward as an old ideology (Helleiner, 2002).

Gilpin (2017: 48-49) classifies internationally oriented mercantilist / economic nationalist tendencies as benign and malignant mercantilism. While benign mercantilism is the protection of the national economic interests for the security of the state, malignant mercantilism sees the international economy as the field of imperialist development and national uplift.

In traditional context, mercantilism is considered to have precious metals in order to exist as a powerful country in the world, and to have high population in the context of military power (Hettne, 1993: 235).[3] As mentioned above, it is important for the mercantilist approach to gain power against other countries because of the mercantilism's focal point state and national interests.

The premise of economic nationalism is industrialization according to Gilpin (2017: 50). According to him, economic nationalists think that industrialization will contribute to economic development, self-sufficiency and national security. This idea, which can be based on Hamilton, emphasizes the necessity of industrialization for the position of countries in the international hierarchy. Gilpin exemplifies Germany for the success of the theory of economic nationalism

2 Along with the globalization process, it is often expressed as Global Political Economy. See Ravenhill (2016); O'Brien and Williams (2016).

3 For the origins and first thinkers of the mercantilist economic policy see, Çaklı (2009); Eren (2011).

and thus the protectionist industrialist state, and this is based on Thorstein Veblen's work on Imperial Germany and Industrial Revolution published in 1939:

"Germany is the first society to follow the systematic industrial policy and develop the economy scientifically. This rapid growth of German prosperity and military power will be a precedent for other communities in the second half of the nineteenth century. In the beginning, while the economic success of Great Britain seemed to show the merits of liberalism, Germany legitimized the doctrine of economic nationalism as a guide to trade policy and economic development (Gilpin, 2017: 226).

In this context, economic nationalism emphasizes that the comparative advantage is not static but dynamic. Economic nationalists foresee a trade policy that will bring about the development of the national industry in the framework of protectionist policies (Gilpin, 2017).

As Hettne (1993: 236) states, mercantilism has an "illiberal and statist" character. According to him, mercantilism can be similar to the socialist approach with its features. On the other hand, socialism tells us that it has a class perspective and that prosperity is more of a priority. Hettne therefore, while ideologically interpreting socialist state interventionism, defines mercantilism as pragmatism.

Mercantilism emphasizes that the main actor of the global economy is the state while explaining the international political economic order, and states that market relations are shaped by political power (O'Brien and Williams, 2016: 8).[4]

The reason of the statist character of mercantilism was perhaps its emergence simultaneously with the nation-state in the 15th century. Because mercantilism is the first variation of capitalism as a dominant doctrine and economic order from the period concerned to the industrial revolution. In Mercantilism, there is a zero-sum game between states to seize the limited resources of the world. This struggle also Generates an anarchic international order. A. Hamilton and F. List stand out as the thinkers shaping mercantilist economic policies in this direction (O'Brien and Williams, 2016: 8).[5]

According to List, in order to develop a state in the economic context, it is first necessary to solve the problem of production. In this context, it proposes that the domestic industry should apply protectionist policies as much as the tradition to the competitiveness level by suggesting that the international economic literature will be referred to as "the infant industry argument" (Cohn, 2012: 59).[6] This theory, which is seen as the basis of economic nationalism, finds practical

4 Mercantilism's international / global political economic position and implications for this work are important. Especially in the twentieth century, the industrialization process of some countries like Japan, or the references of China's politics to modernism have been updated from the historical point of view.

5 For the views of List see David Levi-Faur (1997)

6 For the relation between economic nationalism and development see Bresser-Pereira (2018)

application especially after the great depression and after the second world war.[7] On the other hand, List's work has been the pioneer of the "national political economy" (Kibritçioğlu, 1996). The role of the state in List's theory is to preserve national productive forces (Levi-Faur, 1997).

As globalization and liberalization of capital movements make the country's economies open to the public, some countries are attempting to maintain sectors that have strategic priorities for the country's economy in some applications (voluntary export restrictions, non-tariff barriers, etc.).[8]

States want to control areas that are referred to as Commanding Heights-Leading Sectors and that are seen as strategic sectors of the country's economy (Gilpin, 2017: 51). Certain sectors, primarily the natural resource sector, are the areas that the state controls with public enterprises. Hence, the most important practices of economic nationalism / neomercantilism are rising over such sectors, especially within the framework of resource nationalism policy.

Neo-mercantilism, which can be regarded as a "modern" version of mercantilism, is a system that prioritizes the preservation of the economic, political and military interests of nation states and directs the market in line with these national goals.[9] So neo-mercantilism is a process that aims to direct it rather than reject it. Neo-mercantilism, which regards national companies as a priority as being a priority for national competitiveness, especially state-owned companies, economic activity as a condition of existence of global political economic order is important. Modern neo-mercantilism differs significantly from the precursor mercantilism, but it also has common points. At the beginning of these common points is to secure the important raw materials of the states and to use the highest level of richness in terms of natural resources. While gold and silver are strategic resources in the early mercantilist period, today this mission fulfills oil and natural gas. Resource-based self-sufficiency is a major advantage of resource rich countries even in the current globalization process of free market economy. In the forefront of national interests, states can gain global competitive power by using this comparative advantage. Russia is an important example of this. Russia is self-sufficient in both oil and natural gas (Ziegler and Menon, 2014: 19-20). Therefore, strategic resource policy is of importance for the main purpose of neo-mercantilism, "maximizing economic power" (see Wigell, 2016).

3. Strategic Resource Policy / Resource Nationalism

In 1973 OPEC's fourfold increase in oil prices has changed the international economic outlook, while the subsequent increases have led to the capital leaping to the wealthy countries and the weakening of the western economical context. The OPEC member countries, which are rich in petro-dollar, have borrowed these revenues from the Western banks through the developed and developing countries that have been hit hard by the crisis. However, the dependence on

7 For example, one of the main sources of Turkey's statist economic policies and national economy thinking is List's theory.
8 Strategic Trade Policy is also important in this regard. See. Gilpin (2017)
9 See also Guerrieri and Padoan (1986)

oil and the strengthening of the OPEC also created a security problem in the economic context (Balaam and Dillman, 2015: 101).

The emerging economic security problem has begun to adopt more pragmatist policies, especially considering the interests of many developing countries' markets, the state and the nation. The main purpose of these pragmatist policies is to protect national independence and economic security (Balaam and Dillman, 2015: 108, 110).

These neo-mercantilist strategies continued to exist in the neoliberal age, and in the period of strategic capitalist / state-centered capitalism that emerged after the 2008 crisis. According to Balaam and Dillman (2015: 110), neo-mercantilist politics today are felt in two ways. The first is the industrial and infrastructure policies to increase the competitiveness of the country, while the second is the strategic resource policies. The strategic resource policy is a policy option, in which gold and silver precious mercantilism are precious elements of today's mercantilism as a result of the observation of minerals, oil and natural gas. Many countries, especially BRICS, are investing nationally and internationally with state-owned companies in order to increase existing energy sources and to meet the energy demand in the countries. Therefore, energy with strategic priorities for countries are under state control.

This approach, which Balaam and Dillman (2015) describe as strategic resource policy, is called resource nationalism by writers such as Vivoda (2009), Wilson (2015a, 2015b, 2017) Nem Singh and Massi (2016) and Pryke (2017). For example, according to Wilson (2015a: 400), resource nationalism is "a strategy by which governments use economic nationalist politics to improve local returns from resource industries".

Resource nationalism as a subfield of neo-mercantilism and modern economic nationalism is a policy option that has been recently applied by the countries in the direction of national goals and interests (Wilson, 2015a: 399). The multinational debate on international politics and economics, which began with the rise of the BRICS countries, has redefined the center of gravity of the power balances due to BRICS countries' position in the energy sector (Wilson, 2015b: 223). In this direction, resource nationalism has become a phenomenon spreading among countries, especially in the developing world. States are aiming to maximize their political and economic benefits in the mining and energy sectors with national policies. Economic activities in these sectors are thus determined for national targets and interests within the framework of resource nationalism (Wilson, 2015a: 399). Countries rich in minerals and energy sources also use the resource nationalism policy in the context of development strategy. However, resource nationalism is also used as an important tool for the political security of the concerned countries (Wilson, 2017).

While resource nationalism was on the rise before the neoliberal period (in the 1960s and 1970s), many countries went privatizing state-owned companies, with market-dominated policies dominating by the last quarter of the twentieth century. Important areas, especially the energy and mining sectors, have been controlled by multinational corporations. In the 2000s, however, resource nationalism made a comeback. Countries such as Russia, China, Angola, Kazakhstan, Venezuela and Bolivia have started to expropriate the energy sectors in these years (Wilson, 2017: 75; Dannreuther, 2015: 467).

Wilson (2015b, 2017) states that countries adopting a policy of resource nationalism, primarily BRICS, generally apply this policy in three ways. First, in all BRICS countries, the resource sectors are state-owned. Although the privatization trend was high along with the neoliberal period, these countries retained the mining and energy sectors they saw as strategic sectors (apart from South Africa, which joined in 2011) (See Table 2). Secondly, some BRICS countries limit trade in resources. This is done by controlling exports. The cause also prevents the national economic interests from being damaged. Finally, BRICS countries are trying to keep domestic energy prices low. India, for example, has subsidized energy for a long time, while China is doing price controls to reduce national oil and electricity prices. In Russia, with Gazprom, local consumers are offering natural gas at cost. Likewise, Brazil is offering petroleum refining to the national market through Petrobras at a low price after the 2008 crisis (Wilson, 2015b: 229).

All BRICS countries are rich in terms of mines and energy sources, and a significant portion of their economies are based on their production and export. In this context, besides being a commercial commodity, energy, which is also part of "resource diplomacy" in the context of international political relations, constitutes one of the common points of BRICS countries. In fact, the resource richness of these countries is an important factor in determining their global position (Wilson, 2015b: 224). BRICS countries therefore use both the economic and political advantages of wealth in terms of resources. For that reason, BRICS is a good example in the context of resource nationalism. These countries, along with their resource nationalism, are both aimed at sustaining resource-centric development strategies and creating an international political regulatory domain by using various forms of resource diplomacy. Resource nationalism is that the mining and energy sectors are controlled by the state rather than being market-oriented, and countries applying resource nationalism maintain their presence in these sectors with selective policies. This necessary policy for national interest is also important for the international position (Wilson, 2015b: 227).

Table 2. Resource Sectors of BRICS

Country	Oil and gas	Coal mining	Metals mining
Brazil	SOE dominat		Mixed
China	SOE monopoly	SOEs dominant	SOEs dominant
India	SOEs dominant	SOE monopoly	SOEs dominant
Russia	SOEs dominant	Private	Private
South Africa		Private	Private

Wilson, 2015b

Resource nationalism includes not only the assessment of domestic resources but also foreign investment for new energy sources in the context of energy security. The countries focus on areas where there are various neo-mercantilist strategies and energy sources (For varieties of resource nationalism, see Table 3).

One of the greatest examples in this respect is manifested in Asia. China and Russia are investing in oil and gas riches in Central Asia with their state-owned companies The reason for this is not only economic, but also there are political reasons as well. Russia, for example, is following a neo-mercantilist energy strategy in order to maximize political control in the region as well as consolidate the position of the country in which Europe imports energy (Ziegler and Menon, 2014: 23).

Russia's resource nationalism policy came to the forefront with the Putin era, and the privatized state-owned companies were re-nationalized under the post-Soviet IMF-supported reform and adaptation programs. The process that started in December 2004 with the expropriation of the country's 76 per cent share of the largest oil producer Yukos continued with the partial or complete nationalization of institutions such as Rosneft, Gazprom and Transneft. These energy companies, which provide half of Russia's state revenue, continue to increase their activities both in national and global contexts (Wilson, 2017: 79).

Table 3. Varieties of Resource Nationalism

Rentier resource nationalism	**Developmental resource nationalism**	**Market-oriented resource nationalism**
This type of resource nationalism is the policy that some countries apply to resource wealth in the state holding of economic rents. Government control in distribution of rent Direct state ownership in resource sectors.	Incorporating the resource sectors into the economic development process. State companies dominant in resource sectors Energy is the strategic sector for national development goals. Priority is economic transformation.	This type different from statist resource nationalism. This policy does not involve State ownership, nationalization or the weight of state-owned companies. Resource sectors open FDI in resource sectors openness. The state is only involved in the sector through taxation policy.
Guinea, Kazakhstan, Russia, Gulf Countries	Brazil, Chile, China, India, Indonesia	Australia, Canada, USA

Prepared from Wilson (2015a)

4. Conclusion

This study aims to evaluate the increasing economic nationalist policies in the era of globalization. Although globalization seems to be a process of liberalization, economic nationalism is at the forefront in the recent period. In this context, economic nationalism has been examined in the perspective of international political economy in this study.

The concept of economic nationalism, coupled with 15th century mercantilism in the traditional context and reinforced by the theories of Hamilton and List, is an important issue in the historical context of international political economics through the realist approach.

In every period of capitalism, it is seen that economic nationalism has increased somewhere. But the general view of capitalism in the current globalization phase is that the effect of nation-states on the economy is diminishing, but economic nationalism seems to have increased its influence especially after 2000. In a sense, this process, which can also be expressed as a change of direction of globalization, necessitates rethinking neo-mercantilist tendencies, especially economic nationalism.

Despite the rapid spread of neoliberalism, especially in the 2000s, developing countries, especially countries like Russia and China, applied the policies of the global economic nationalism especially to the resource sectors. These policies, also referred to as resource nationalism, directly involve the energy and resource sector, which the state sees strategically for global power. Resource nationalism is the economic nationalist politics that countries use to progress economically and politically. Resource nationalism is also an important tool in terms of development and political-economic security in the direction of national interests.

Therefore, it is seen that economic nationalism policies have become the foreground even if revised in the axis of international political economy and global transformations.

References

Al, A. (2015). Politika-Ekonomi Kesişmesi: Yeni Bir Bilim Dalı Olarak Uluslararası Politik Ekonomi. İGUSBD, 2 (1), 143-159.

Arbatli, E. (2018). Resource nationalism revisited: A new conceptualization in light of changing actors and strategies in the oil industry. Energy Research & Social Science 40, 101-108.

Balaam, D. N. and Dillman, B. (2015). Uluslararası Ekonomi Politiğe Giriş. Ankara: Adres Yayınları.

Ban, C. (2013). 'Brazil's liberal neo-developmentalism: new paradigm or edited orthodoxy?', Review of International Political Economy 20(2): 298–331.

Bresser-Pereira, L. C. (2018). "Economic Nationalism and Developmentalism", Fiscaoeconomia, Special Issue (1), 1-27.

Cohn, T. H. (2012). Global political economy. Boston: Longman.

Çaklı, S. (2009). İktisat Politikası Düşüncesinin Evrimi. Ankara: Gazi Kitabevi.

Eren, A. A. (2011). Sir William Petty: Merkantilist Bir Düşünür müydü? Ekonomik Yaklaşım, 22 (79), 45-70. doi: 10.5455/ey.20028

Gilpin, R. (2001). Global Political Economy: Understanding the International Economic Order. Princeton: Princeton University Press.

Gilpin, R. (2017). Uluslararası İlişkilerin Ekonomi Politiği. Ankara: Kripto Yayıncılık.

Guerrieri, P. and Padoan, P. C. (1986). Neomercantilism and international economic stability. International Organization, 40, pp 29-42 doi:10.1017/ S002081830000446X

Helleiner, E. (2002). Economic nationalism as a challenge to economic liberalism? Lessons from the 19th century. International Studies Quarterly, 46, 307-329.

Hettne, B. (1993). The Concept of Neomercantilism. In Mercantilist Economics, ed. L. Magnusson. New York: Springer Science+Business Media, LLC.

Kibritçioğlu, A. (1996). Friedrich List's Infant Industry Argument. MPRA Paper No. 2549.

Klare, M. T. (2017). "The Changing Geopolitics of Oil and Gas", in The Geopolitics of Global Energy, ed. Timothy C. Lehmann. Lynne Rienner Publishers.

Kröger, M. (2012). 'Neo-mercantilist capitalism and post-2008 cleavages in economic decision-making power in Brazil', Third World Quarterly 33(5): 887–901.

Levi-Faur, D. (1997). Friedrich List and the political economy of the nation-state, Review of International Political Economy, 4:1, 154-178, DOI: 10.1080/096922997347887

Nem Singh, J. and Massi, E. (2016). "Resource nationalism and Brazil's post-neoliberal strategy". In The Political Economy of Natural Resources and Development. Eds. P. A. Haslam and P. Heidrich. NY: Palgrave Macmillan.

O'Brien, R. ve Williams, M. (2016). Global Political Economy. Fifth Edition. London. Palgrave.

Pryke, S. (2017). Explaining Resource Nationalism. Global Policy doi: 10.1111/1758-5899.12503

Ravenhill, J. (Ed.) (2016). Global Political Economy. Fifth Edition. Oxford University Press.

Roland D. (2015). Energy security and shifting modes of governance. International Politics, 52 (4), 466–483.

Vivoda, V. (2009). Resource nationalism, bargaining and international oil companies: challenges and change in the new millennium. New Political Economy, 14(4), 517-534.

Wigell, M. (2016). Conceptualizing regional powers' geoeconomic strategies: neo-imperialism, neo-mercantilism, hegemony, and liberal institutionalism. Asia Europe Journal, 14(2), 135–151. DOI: https://doi.org/10.1007/s10308-015-0442-x

Wilson, J. D. (2015a). Understanding resource nationalism: economic Dynamics and political institutions. Contemporary Politics, 21(4), 399-416.

Wilson, J. D. (2015b). Resource powers? Minerals, energy and the rise of the BRICS, Third World Quarterly, 36 (2), 223-239, DOI: 10.1080/01436597.2015.1013318

Wilson, J. D. (2017). International Resource Politics in the Asia-Pacific. Edward Elgar Publishing.

Ziegler C. E. and Menon, R. (2014). Neomercantilism and Great-Power Energy Competition in Central Asia and the Caspian. Strategic Studies Quarterly, 17-41.

PART I.

CHAP 4.

TO REREAD POLITICAL CRISES OVER ECONOMIC CRISES IN THE 21ST CENTURY

İnan AKDAĞ[*]

Introduction

Crisis is the important part of class-based societies; therefore, the written history is made up of crises. All societies have experienced with crisis. Crisis has modernized society, and the history has advanced. The class-based societies led to crisis then they collapsed and then they are again established in different way.

Political crises consist of uprisings, wars, revolutions and so on. Until the end of the 20th century the crises have had national nature but then they have gained international dimension instead of national dimension.

The class-based society originates from articulations of stratums. Economy as substructure, law, politics, ideology and philosophy as superstructure constitute stratums, all of which create the socio-economic structure. When articulations act, crisis becomes appearent in the socio-economic structure. Therefore, all stratums tie to each other. The crisis means disharmony of stratums.

The aim of this study is to hold projection to political crises which is to be confronted in the 21st century by conceptualizing political crises -deep crises- over economic crises. The importance of study is that there is less studies on to be going to confront crises in the 21st century although political crises have been analyzed with the context of economic crises before. Therefore, this study aims to fill this gap in the field of both politics and economics. The hypothesis of this study is that political crises are affected by economic crises because political, ideological and economic crises are accepted as holistic structure from the result of this interaction.

Crisis: The Transformation Of a Concept

The word 'crisis' means choosing. Like other concepts, the concept 'crisis' is subject to historical transformation. In the period of Antique Greece the word 'crisis' was used in the field of

* Amasya University, Merzifon Faculty of Economics and Administrative Sciences - Department of Economics/ Amasya, inanakdag@yahoo.com

law, medicine and theology. After the 17th century crisis was thought as a metaphor, and its meaning expanded to the fields of politics, economics, history and psychology. The concept 'crisis' which was used in the field of theology and belief at the end of the 18th century is used as decision and choosing today (Koselleck, 2006: p. 358).

The concept 'crisis' gained political meaning in the 17th century and it was thought for military affairs. Then the concept was used in the field of economics in England in the 18th century. In this context, political and economic crises became part of daily life. After the 1840s, the concept 'crisis' gained social content and it started to be used for urgent situations which emerged from social movements which sourced from constitution, industry, technology and capitalist market economy (Koselleck, 2006: p. 391).

Briefly, the concept 'crisis' turned its meaning from narrow sense to broader sense. It started to be used in the meanings of political science, psychology, sociology, culture, economy, anthropology, media and other human sciences (Koselleck, 2006: p. 399).

In daily life crisis is used to have important situation which has violent or potential violent. It means the beginning of war. Then the concept expanded its meaning and it displayed more situation. Therefore, the border between crisis and noncrisis situation blurred (Phillips and Rimkunas, 1978: p. 259).

When the concept 'crisis' is cited in international level, political and economic crises firstly are thought. If political crisis is taken up alone, it is taken up wrong part for reaching reality. Political crisis is the part of holistic social structure. Reality has holistic nature and so determinism is important strategy to clarify social reality. In this study crises are holistic nature and economic crises determine political crises. The change in economy leads to change in politics, ideology and briefly socio-economical structure. Briefly political crises merged from economic crises.

In this context economy has to be analyzed in order to understand political crises. When economic crises are looked at, there are some crises which are repeated with definite periods in the 20th century; 1929 Financial Crisis, 1973 Oil Crisis, 1997 International Financial Crisis and 2008 World Economic Crisis. Therefore, capitalism structurally carries crisis tendency.

Economic crises mean that current structure could not be kept on, which naturally has political results. In this context political results lead to political crises. Economically current conditions which could not be kept on meaning political and ideological conditions which system could not be carried on. Therefore, both economic, political and ideological restructure are necessary. In this sense it can be found out that there are both economic, political and ideological renovation of crises.

According to Andre Gunder Frank (1981: p. 111), crisis does not mean end. Crisis is a critical period and end is avoided with new applications. Frank puts forward that crisis is a period, and in this period unhealthy social, economic and political bodies do not live like before.

Like Frank's claim (1981: p. 53) for all economic crises -crisis means overaccumulation- world economy should be restructured. However, this restructure should not limit with economy. At the same time this means the restructuring of social, political ve ideological at both national and global levels.

There are some features which separate current crises with past crises. These features (Rosenthal, Hart and Charles, 1989);

- A violent threat or destructive change near of victim

- High level uncertainty

- Decision need critique and nonreversible

According to Mario Candeias (2011: p. 49) structural and organic crises come from before transformation. Crises are natural for the societies whose dominant mode of production are capitalism. Economic, cyclical and generic crises produce no equilibrium situation, which leads to collapse of all countries and regions and unemployment. Crises result from changing political conjuncture at the period of capitalist development. At this point the relationship between economic crises and political crises become very clear.

Historically the relationship between economic crises and political crises is obvious. For example, 1929 Economic Crisis led to fordism while 1973 Oil Crisis caused to neoliberalism. At this time duration there were economically important turning point; 1933, 1945, 1968, 1973 and 1980. These times were political crises periods as well. The important political crises at these times were New Deal, fascism, Second World War, 1968 Events, Pinochet Coup in Chile and Thatcherism in England (Candeias, 2011: p. 50). Therefore, economic crises and political crises are holistic issues at the last point of view.

Before economic and political turmoil there are molecular transformations in social relations Candeias, 2011: p. 50). In this study the aim is to clarify molecular changes which lead to political crises over economic crises. Although these molecular changes come from the past they gain new historical-social contents.

To Conceptualize The Crises Of Capitalism Structurally Over The Long Wave Theory

If political crises are analyzed over economic crises, the structural development of capitalism gains importance. Capitalism in which has structurally tendency of crisis leads to political crises. Therefore, it is necessary that capitalism has to structurally be analyzed. Indeed capitalism resembles living organism. When the history is spirally not linearly assumed it can be seen that it includes taking progress, standstill and withdrawal stages and it moves to forward. Capitalism as an organism constitutes from expansion and shrinking periods.

When capitalism became dominant mode of production, people started to see economic life as sometimes in crisis situation and sometimes in abundant situation. Therefore, many people perceived this situation and then scholars started to study about this subject.

The founders of the long wave theory, Kondratieff, Trotsky, Schumpeter, had different point of view about the long waves. If they are classified;

- Nikolai Kondratieff (1935) had conservative approach and he based his theory on price indexes and investment.

- Leon Trotsky (1923) had revolutionary approach and he based his theory on class wars.

- Joseph A. Schumpeter (1923) had liberal approach and he based his theory on innovation.

The long wave debate goes back to the 1920s, which was firstly theorized by Nikolai Kondratieff, Lev Trotsky and Joseph Schumpeter, both of which accepted that capitalism had cyclical structure. It evolves as long waves, whose life-time approximately 50-60 years and which constituted from up and down periods. Up period lasts approximately 25 years and down period goes on approximately 25 years, total of which constituted a 50-year-cycle. Up period has peak point and down period has crisis point. However, the founders of the long wave theory did not agree on the long waves. Kondratieff defended that the cycle characteristic of capitalism was endless and Trotsky claimed that the cycles would end because of crisis characteristic of capitalism. Schumpeter put forward moderate point of view and he defended that the cyclical structure was either endless or was to end capitalism.

According to Kondratieff (1935: p. 105), "The idea that the dynamics of economic life in the capitalistic social order is not of a simple and linear but rather of a complex and cyclical character is nowadays generally recognized...There is, indeed, reason to assume the existence of long waves of an average length of about 50 years in the capitalistic economy, a fact which still further complicates the problem of economic dynamics.".

According to Trotsky (1923), "We observe in history that homogeneous cycles are grouped in a series. Entire epochs of capitalist development exist when a number of cycles is characterized by sharply delineated booms and weak, short-lived crises. As a result we have a sharply rising movement of the basic curve of capitalist development. There are epochs of stagnation when this curve, while passing through partial cyclical oscillations, remains on approximately the same level for decades. And finally, during certain historical periods the basic curve, while passing as always through cyclical oscillations, dips downward as a whole, signaling the decline of productive forces.".

According to Schumpeter (1923: p. 143), "Both rhythm and cycles are present in a much more relevant sense. For there is a process which systematically produces alternating phases of prosperity and depression through the working of a definite mechanism set into motion by a definite 'force' or 'cause'. All we can thus far say about the duration of the units of that process and of each of their two phases is that it will depend on the nature of the particular innovations that carry a given cycle, the actual structure of the industrial organism that responds to them, and the financial conditions and habits prevailing in the business community in each case.".

The long wave characteristic of capitalism has both effect on economy and on politics, social and other fields. This situation sources from the holistic characteristic of social structure. Therefore, economic cyclical structure has led to political cyclical structure and political crises result from this cyclical situation. According to Trotsky (1923), "Oscillations of the economic conjuncture (boom-depression-crisis) already signify in and of themselves periodic impulses that give rise now to quantitative, now to qualitative changes, and to new formations in the field of politics. The revenues of possessing classes, the state budget, wages, unemployment, proportions of foreign trade, etc., are intimately bound up with the economic conjuncture, and in their turn exert the most direct influence on politics. This alone is enough to make one understand how important and fruitful it is to follow step by step the history of political parties, state institutions, etc., in relation to the cycles of capitalist development.".

Although all of the founders of the long wave theory agree on the relationship between the cyclically evolution of capitalism and the political events including political crises, there is disagreement about whether events of political crises, for example wars, revolutions etc., are external or internal to capitalistic cycles. According to Kondratieff (1935: p. 113), "Wars and revolutions, therefore, can also be fitted into the rhythm of the long waves and do not prove to be the forces from which these movements originate, but rather to be one of their symptoms.". According to Trotsky (1923), "As regards the large segments of the capitalist curve of development (fifty years) which Professor Kondratieff incautiously proposes to designate also as cycles, their character and duration are determined not by the internal interplay of capitalist forces but by those external conditions through whose channel capitalist development flows. The acquisition by capitalism of new countries and continents, the discovery of new natural resources, and, in the wake of these, such major facts of "superstructural" order as wars and revolutions, determine the character and the replacement of ascending, stagnating or declining epochs of capitalist development.". According to Schumpeter (1923: p. 8), "We may within the limited range of our investigation look upon wars, danger of war, revolutions, and social unrest as external factors.".

Reading Political Crises Over Structural Crises Of Capitalism

Political crises -deep crises- generally come into being after the period of the crises of capitalism. The articulations of social structure slacken in these periods of crisis, and so administration crisis emerges from current political order. After periods of crisis a new social structure is built and then a new economic crisis leads to new political crises. The cycle continue in this way.

The structural crises of the 1870s, the 1930s and the 1970s of capitalism were solved with restructuring of capitalist system. Solution does not mean solution of problems of masses. Solution means just solution of problem of capital accumulation. The crisis of accumulation problem spirally leads to political crisis (Robinson, 2014: p. 158).

Andrew Tylecote (2001: p. 273) emphasizes the relationship between political crises and the long waves of economics. According to him, although wars, revolutions and other crises become explanatory factors, the relationship between these factors and the long waves must be clarified.

According to Joshua S. Goldstein (1988: p. 7), the long waves emerged from alternative economic stages. These stages come into being from up and down stages. These stages are not same each other in terms of quality and length. All waves have length nearly 50 years.

Goldstein (1988: p. 7) claims that hegemonic waves consist of some wars. These wars lead to the result of the collapse of hegemony and the rise of new hegemony. Hegemonic war follows namely, strong hegemony, weak hegemony, rising competition and another hegemonic war. A hegemonic wave may include more than one long waves.

According to Goldstein (1988: p. 7), long waves are a economical phenomenon. Hegemonic wave is a political phenomenon. A long wave includes key political elements when a hegemonic wave contains economic elements. As a result economical long waves have interaction with political waves.

If we look at the relationship between wars, revolutions and Kondratieff's long waves (Devezas, 2006: p. 6)

Table.1. Kondratieff's table on wars and revolutionary upheavals

	Number of Wars	Number of Revolutionary	Total Upheavals
First Big Cycle			
Increasing Wave	11	7	18
Bearish Wave	1	4	5
Second Big Cycle			
Increasing Wave	7	11	18
Bearish Wave	2	2	4
Third Big Cycle			
Increasing Wave	11	11	22

As it can be seen when it is analyzed of capitalist long waves, increasing wave after economic crisis leads to the rise of political crises -war, revolution etc. Therefore it is important step that deep political crises conceptualize over economical crises. This step could give the picture of reality, which provides theoretical substructure for understanding past, today and future.

Rereading Political Crises Over the Crisis of Capitalism in the 21st Century

In historical point of view all events which is to be realized in the future are embedded today. Therefore, the roots of events can be found today, and history is important analysis strategy in order to understand future events. In this chapter with historical point of view the events which is to be realized in the future are tried to clarify.

The main point of political crisis in the 21st century is, although in fact it is economic problem, *the crisis of capitalism*. Capitalism has a tendency to crises, which had been displayed by Karl Marx (1958) because of the fated law of the fall of profit rates. Capitalism crises are cyclical and its movement follows the long and short waves. Capitalism enters crisis sometimes at the end of the fall of profit rates sometimes at the end of financial issue. The 20th century humanity experienced crises both from the fall of profit rates and from financial markets.

Another issue of political crisis in the future is *the possibility of war between the USA and People's Republic of China*, which may trigger the Third World War. Today there are some indicators of this future confrontation. For instance, 'The Top US Admiral in the Pasific has warned America must be "prepared" for a possible future war with China' on February, 15, 2018[1]. Another example came from a senior Chinese military official; 'War with the US under Donald Trump is "not just a slogan" and becoming a "practical reality"' on January, 28, 2017[2]. Indeed like other crises a possible world war is related with the crisis of capitalism. Robinson (2014: p. 172) also touched on this relationship and he says that 'Transnational capital and its political agents have been attempting to resolve the crisis by launching war'. Tylecote (2001: p. 272) emphasized the relationship between war and the long waves of capitalism and he says: 'The "long cycle" in international relations, with the rise and decline of "world powers" and the "global wars" which end with the appearance of a new world power'.

The political crisis line in the 21st century is *possible social revolutions*, which are related with the rising influence of Chinese economic model and which are tied to the crisis of capitalism in the future. Although today Marxist-Leninist model which is the substructure of social revolutions in the future, it may gain popularity in the world. Mark Carney, the governor of Bank of England, the central bank of England, warns about Marxism on April, 14, 2018 and he

1 https://www.independent.co.uk/news/world/americas/us-politics/us-military-china-admiral-harry-harris-pacific-regional-military-power-armed-services-committee-a8211466.html (Access: 04/26/2018, 14:30)

2 https://www.independent.co.uk/news/world/asia/china-donald-trump-war-us-military-official-practical-reality-president-latest-a7550601.html (Access: 04/26/2018, 15:00)

says: 'Mass job losses caused by advancing technology could lead to a rise of Marxism ... and the automation of millions of jobs could lead to mass unemployment, wage stagnation and the growth of communism within a generation ... and Marx and Engels may again become relevant'[3]. Therefore in the future the humanity may confront with revolutions in the world and it may lead to political crises.

Political crisis point in the 21st century may also be *the wave of authoritarian regimes* in the world. Chinese authoritarian model, the possible revolutions in the future and the crisis of capitalism may trigger the authoritarian regimes both East and West countries. Authoritarian regimes are indeed reaction against instable world conjuncture. Authoritarian regimes have advantages against economic crises. According to Horowitz and Heo (2001: p. 4): 'In authoritarian regimes, economic policy making is often more insulated from interest group pressures; and in "developmental" authoritarian regimes, such insulation has often been joined with technocratic economic management aimed at achieving rapid economic growth'. In addition, historical experience justifies the fact that these regimes (authoritarian regimes) emerged after the wave of revolutions in 1848. When 1848 revolutions spread to France and other European countries, democratic regimes turned into authoritarian ones in Europe. In France 1848 revolutions led to Napoleon's authoritarian regime and it resembles German experience at that time (Tylecote, 2001: 204). According to Sinclair (1976: p. 87): 'What happens when the ruling class is weakened or experiences some threat to its hegemony? One development, but by no means an inevitable one, is the emergence of fascist politics within the context of an ongoing capitalism ... fascist leaders come to depend on old sources of power and actually prop up capitalism during a period of weakness' therefore, he emphasized the relationship between revolutions which are threat to ruling classes and fascist regimes which are the type of authoritarian regimes.

The one of the political crises of the 21st century is *water problem* as well. Scarcity of water sources would lead to possible wars between the nations which have water sources and the nations which do not have water sources. According to Brahma Chellaney (2013: p. xi), 'Water, as a life-creating, life-supporting, and life-enhancing resource, poses the biggest challenge of all natural resources because it has no replacement and is not internationally traded like oil, gas, and mineral ores. This makes adaptation to water scarcity more onerous...In fact, as the world enters an unfamiliar era of serious water stress, compounded by degradation and depletion of many watercourses (rivers, lakes, and underground aquifers), the specter of wars over freshwater looms on the horizon'. Today almost 260 rivers are shared by two or more nation-states in the world (World Commission on Water, 2000: p. 291). Therefore, in the future possible water scarcity situation water sources would be an origin of conflict among nations which do not have enough water sources, almost all of which are Asian, Middle Eastern and African countries.

3 https://www.independent.co.uk/news/uk/home-news/mark-carney-marxism-automation-bank-of-england-governor-job-losses-capitalism-a8304706.html (Access: 04/26/2018, 14:10)

Indeed, water problem is also the problem of capitalism because of unplanned economies and uncooperative nations.

Ethnic conflict is another point of political crises in the 21st century. Indeed rising ethnic conflict emerged after 1980s, which is identity-based conflict instead of ideological-based conflict during the Cold War. There are many ethnic conflict areas throughout the world. Many countries suffered and suffer from ethnic conflict. Indeed although there are many factors which lead to ethnic conflict economic factors, in fact at the end it is the issue of capitalism, are very important factor in ethnic conflict. As far as Stefan Wolff's (2006: p. 68) concerned; 'The underlying causes-that is, necessary, but not sufficient conditions for the outbreak of inter-ethnic violence- comprise four different types of factor: structural, political, economic and social, and cultural and perceptual...Economic and social factors play an equally important role in setting the scene for potentially violent ethnic conflicts: economic problems, discriminatory economic systems (such as a system of cultural division of labor with job opportunities determined by ethnic background), and (uneven or preferential) economic development and modernization are factors that can contribute to the mobilization of ethnic groups and their formation into conflict groups ready to fight for equality of economic opportunity, redistribution of resources, or the preservation of a privileging status quo'.

The immigration problem is also another political crisis line in the 21st century. According to McMahon (2017: p. 1), 'The economic crisis has had an impact on international migration and the lives of migrants'. Therefore although there are another reasons which trigger immigration such as wars, discrimination and so on, economy and its crises have important impact on immigration. Therefore, global and regional wars and the crisis of capitalism may constitute political crises in the 21st century.

Conclusion

Briefly social structure is holistic structure, and from economy to politics, to ideology all stratums constitute this holistic structure. In terms of deep analysis the change in economy leads to the change in politics and ideology, and other social stratums. In this respect politics, ideology also affect economy. Therefore, this relationship is dialectical relationship, which the stratums mutually affect each other.

In this context the political crises which are to confront in the 21st century are economic crises in terms of dialectical relationship. Therefore, if we analyze capitalism and its crisis tendency, we can reach possible political crisis. That is the reason why political crisis occurs is the result of economic crisis because during economic crisis articulation of stratums slackens and socio-economic structure produces crisis situation. In this way crisis of capitalism means political and ideological crisis.

The structure of capitalism as living organism and its movement bases on capital accumulation, and it suffers from periodical crises. These periodical crises bring about disharmony of holistic socio-economic structure. Therefore, crisis of capitalism tendency leads to political crisis and because of crisis of capitalism, we can predict future political crisis.

The crisis of capitalism in the 21st century is important point of political crisis. Capitalism produces crises, which leads to political crises. The crisis of capitalism is the main problem, which produces disharmony of politics, ideology etc. The crisis of capitalism from the beginning of capitalist mode of production has been observed; however, the crisis periods of capitalism realizes frequently and their length becomes shorter. Therefore, in the 21st century it could be observed the crisis of capitalism frequently and more severe.

In the 21st century possible political crisis is embedded today. There some lines of political crises today. Firstly, capital accumulation develops unequal in the world and in the 20th century the leader of capital accumulation has been the USA, which is hegemonic power in the world. However, unequal nature of capital accumulation brings about new hegemonic candidate in the world, China. Therefore, China is going to get hegemonic leadership in the world in the 21st century and old hegemonic power the USA is going to try not to lose hegemony. Consequently, the transition hegemonic power from the USA to China is going to become hard and there is possibility for Third World War. As a result, the first political crisis line is possible world war.

The other political crisis issues are water problem, ethnic conflict, authoritarian regimes, social revolutions, immigration problems in the world. These crises points are tied to capitalism and its crisis.

As a result, the world is expected to enter chaotic period in the 21st century.

References

Candeias, Mario, (2011). "Organic Crisis and Capitalist Transformation", **World Review of Political Economy** Vol. 2 No. 1 (Spring 2011), pp. 48-65

Chellaney, Brahma. (2013). **Water, Peace and War Confronting the Global Water. UK: Crisis**. UK: Rowman & Littlefield Publishers, inc.

Devezas, Tessaleno C., (2006). **Kondratieff Waves, Warfare and World Security**. Amsterdam: IOS Press

Goldstein, Joshua S., (1988). **Long Cycles Prosperity and War in the Modern Age**. New Haven: Yale University Press

Horowitz, Shale and Heo, Uk. (2001). "Explaining Precrisis Policies and Postcrisis Responses: Coalitions and Institutions in East Asia, Latin America and Eastern Europe", **The Political Economy of International Financial Crisis** ed. by Horowitz, Shale and Heo, Uk. Lanham: Rowman & Littlefield Publishers inc.

Frank, Andre Gunder, (1981). **Reflections on the World Economic Crisis**. New York and London: Monthly Review Press

Kondratieff, N. D. (1935). The Long Waves in Economic Life, **The Review of Economics and Statistics**, Vol. 17 No. 6, pp. 105-115

Koselleck, Reinhart. (2006). "Crisis", translated by Michaela W. Richter, **Journal of the History of Ideas**, Vol. 67 No. 2, pp. 357-400

Marx, Karl. (1958). **Capital Vol. III**, New York: International Publishers

McMahon, Simon, (2017). The Politics of Immigration during an Economic Crises: Analysing Political Debate on Immigration in Southern Europe, **Journal of Ethnic and Migration Studies**, pp. 1-20

Phillips, Warren and Rimkunas, Richard, (1978). "The Concept of Crisis in International Politics", **Journal of Peace Research** vol. 15 no.3, pp. 259-272

Robinson, William I. (2014). **Global Capitalism and the Crisis of Humanity**. New York: Cambridge University Press

Rosenthal, U., Hart, P. & Charles, M. T., (1989). "The World of Crisis Management", **Coping With Crises: The Management of Disasters, Riots, and Terrorism**, ed. by U. Rosenthal, M. T. Charles, P. Hart. Springfield, IL: Charles C. Thomas

Schumpeter, Joseph A. (1923). **Business Cycles**. New York: McGraw-Hill Book Company

Sinclair, Peter R. (1976). Fascism and Crisis in Capitalist Society, **New German Critique**, No. 9 (Autumn 1976), pp. 87-112

Trotsky, Leon. (1923). **The Curve of Capitalist Development**, (https://www.marxists.org/archive/trotsky/1923/04/capdevel.htm (Access: 04/27,2018, 11:30)

Tylecote, Andrew, (2001). **The Long Wave in the World Economy**. New York: Routledge

Wolff, Stefan. (2006). **Ethnic Conflict A Global Perspective**, Oxford University Press

World Commission on Water. (2000). A Report of the World Commission on Water for the 21st Century, **Water International**, 25:2, pp. 284-302

PART I.

CHAP 5.

KARL MARX; OPERATION OF CAPITALISM AND ETHICAL CRITICISM THROUGH PERFECTIONISM

*Hülya DERYA**

Introductıon

Marx's starting point in capitalist societies is that labor force is treated like any other commodity. Labor force is treated like non-human factors of production in capitalist conditions. In this regard, social structure is divided into two classes. While a little minority controls means of production, majority is depended on labor market to sell their labor for survival. There is a radical clash of interests in capitalist societies. Marx's class diffirentiation is also a differentiation of property and hegemony. He has expressed powerful and rational explanations for the motive and behaviors of people in different classes. Marx criticized capitalism through the approach of perfectionist human ethically. Perfect human is attached to the paradigm of artistic creation which is versatile, advanced, alienated and far from labor. Perfect people generated a society that they can develop themselves. Capitalism has been increased the level of productive forces, which is not seen throught human history, by setting free them. The cost, which had to be paid by society, is very high for this. Poverty, the loss of humanitarian qualities and alienation are reflections with the arrival of capitalism. Experting of a branch in a capitalist education system causes the differentiation of society. Thus, communal development alienates humans from humanism.

The purpose of this study is; to evaluate Marx's capitalism critique through "perfectionism" which reflects different thoughts of contemporary era of Marx. Instead of division of labor, which he had seen as the guilty of capitalism in his first writings, he mentioned capitalist mode of production in his last writings. This study is threefold. Marx's thoughts about operation of capitalism will be discoursed in first chapter. The question of "what is perfectionism?" will be explained by treating Marx's different periods in second chapter. In the final chapter, the evaluation will be concluded by expressing Marx's capitalism critique through perfectionist human.

While this study was prepared, the topic had been illustrated from Marx's studies primarily and then, other sources had been referred later.

* Kilis 7 Aralık University, hulyaderya11@gmail.com

Marx's Thoughts Upon The Operation Of Capitalism

The most important and problematic function of capitalist society for Marx is its possession of labor market. It is not possible for labor force to produce by itself in its essence. If workers do not want to be hungry, then, they have to make a deal with the owners of means of production. However, this contract is not saving them totally. In time, their communal positions got worse in both economic and moral way. We can understand the economic characteristics of capitalist economy easily with comparing the production of goods in late middle ages. Surplus meeted the several needs of people with simple trade fairs by creating independent producers in some way. A did not forestall B so easily in a simple necessity trade because the individual who thinks h/she had not enough wheat for his/her rabbit gave up the trade eventually. If h/she made the trade, then, the sum of his/her labor force to catch the rabbit would return to him/her as a usage value. The trade value of rabbit transformed into the value of wheat during trade eventually. Marx expressed this condition in this manner: *"If equivalents traded, then, a value-added would not occur, and if non-equivalents are traded, then, a value-added would not occur again. Circulation or trade of goods does not create a value."* (Marx, book I). Because value can be created only by labor. The main principle of Marx's concept of labor is in this way: "The wealth of nations in capitalist mode of production is dominant resemble almost a enormous goods collection." (MEW 23:49). Like his predecessors Ricardo and Smith, Marx wanted to investigate how wealth distributed by asking the question of how will be the wealth of capitalist societies.[1] For this reason, his analyses started with goods and value. The degradation between trade and usage value is at the centre. Marx manifested properly that each two value can be decreased separately and he indicated that the goods with high usage values can possess a low trade value (or opposite) as well. Marx returned to original society and analyzed the societies which lived with trade of goods absolutely for the topic of what determines the trade value of goods. At this point, the questions of how did completely different categories of goods trade in barter economy and how could be reached to shared value have been appeared. In accordance with Smith and Ricardo, he indicated that quantum of human labor creates the trade value of one specific goods. He tried to ground this hypothesis scientifically without questioning more (MEW 23:81). In accordance with Hegel and German idealism, Marx argued that the value of goods is determined through "concrete human labor" quantum by starting off with the thought of individuals should be bounded economic process communally (MEW 23:53). Nevertheless, the first problem of theory have surfaced because there is no device to calculate concrete human labor. Making an empirical proving is not possible either. In the end, it remains as a metaphysical theory. Even Marx himself has expressed this in this manner. Since value theory composed the base of surplus value theory which designed through it, this is also a metaphysical product.[2] This condition is especially valid for the idea that the "production of value is

1 The analysis of Marx is overlapped with all classical economic analysis at this point.

2 Marx himself indicated that he did not discredit the production of surplus at this point. Even, this is mandatory for communal wealth according to Marx. He only opposed the private use of wealth which earned with communal labor herein.

based on pure human labor" which he took over from Smith.[3] The trade value of goods would be determined by concrete human labor in the end. However, the quantum of the communal compulsory labor hours is the subject herein. Every unit of production can minimize the required labor force for goods through communal organization ultimately. The progress of productivity supervene upon this.[4]

Then, what is the difference between trade fair and capitalist organization? First of all, farmers became non-self-sufficient gradually because of industrialization, population growth and land monopolies (Waibl E.1992 book 1:254-256). As a result of this, they have to sell their labor in labor market if they do not want to starve. Because of this, salaried individuals turn themselves into goods in a specific manner. Their price is their "salary" and this is determined by demand. Salaries is began to close to the pure reproduction cost of labor force in conditions of competition (nourishment, childhood education etc.). Salaries cannot drop below because workers will dissolve in that situation. However, it cannot increase above as well because one of the individuals in the army of utility man is ready to do the job in a cheap price. Hence, humans are not independent and autonomous producers in capitalism and instead of this, two group of people emerge. Marx called them as class. "First (dependent to salary) class has to sell its labor force and other group (capital owners) is not obliged to do this or not just yet."[5]

With this historical step to capitalism, an evident divergence appeared for people whom is dependent to salary formerly, they were free to trade their rabbit with wheat. If independent producers are stuck in a difficult situation, they can take the pat to conduct their business with one-way menu. Since laborers cannot guarantee their survival in other ways, they are obligated to sell their labor. Laborers are not in the position to influence neither circumstances nor contents in the conditions of modern capitalist mode of production. For example, in a bourgeois economy, which emphasized by Locke, the essence of the willingness of trade relationships is not valid for all historical cirumstances, all communal groups and needles to say, all individuals in this direction. Marx called them as class. "First group (dependent to salary) has to sell its labor force, on the other hand, other group (capital owners) does not have to do this or not just yet." The characteristic of labor began to be changed with the entrance of capitalist business world. Capitalist does not hire the individual whom is dependent to salary as rabbit hunter, instead, h/she hires him/her as worker in a specific production facility. Marx agreed with "bourgeois" economy for division of labor and a matter that experting render economic productivity for maximization though[6], but he argued that humanitarian deterioration is accompanied

3 He played a dominant role in the leftist educational labor unions.
4 What matters for Marx is that different, historical and communal steps and forms exist and the purpose is to organize them herein.
5 Capitalist has a fear to become a proletariat after a lost competition.
6 Adam Smith's famous example, making of pins.

by mechanization as well[7] (Marx, 1944). The mode of operation of industrial age based upon division of labor alienates the self-essence of humans especially. Mode of operation based upon division of labor is not the result of a collective decision. Individuals cannot join this order as autonomous beings because means of production is dependent on private property and market laws have an inadequate sense of operation. According to Marx, a individual whom is dependent on salary, even cannot get the sum of trade value with labor force which only means usage value for capitalist. Instead, that individual get a "value added" decreased salary. Its reason is that the necessity of capitalists to work efficiently and can compete with other rivals. Capitalists desire to buy more operative machines, to product further and to divest labor force or decrease the salary of labor force even below. At this point, Marx noted that the functional inadequacy of system as both theoretically and strategically. There is no future such a system which established itself into the acquisition of special value added.

Marx's critique is not oriented to minimum salaries or the disadvantegous situtation of laborers in his political economy article in 1844. His critique, a fortiori, has arised from the salability of labor in labor market. His next critique has gone towards to workers who are swamped with poverty more and more. Capitalist mode of production is presented as the basis of all alienation tendency herein. *"How much laborers produce wealth and its production gains power and extent, they become poor more. Human world begin to lose value with concrete world gains value. This study is not only producing goods but also laborers as goods at the same time."* (MEW,1972: 40). Marx severalized between two different types of poverty in the process of accumulation of capital. On the one part, the position of labor force get worse by income pyramide. Although absolute income increases, the income of capitalist increases even more. On the other hand, the incomes of people can be got worse under some historical circumstances. Marx indicated that he observed this situation in agricultural sector and then, the early period of industrialization.

According to Marx, people have to be rivals in labor markets. Workers have abandoned to the mood of markets. These two central traits of capitalism take part also in the communist manifesto; *"Capital agglomerates the people, centralizes means of production and consolidates into numerous people. Workers have to sell themselves one by one, they are only goods just like the other production items, this is why they are in competition in any cases and they are defenseless against the fluctuations of the market."* (Marx-Engels, book 4 :468). Although the financial situation of workers improves once in a while, their humanly situations, a fortiori, get even worse. When the labor product is allowed to sale in markets, more people are allowed to trade goods at the market. If a individual did not produce a product which is valuable in trade, s/he would be alienated from social wheel mercilessly in any case.

7 "This labor produces wonders for rich and malignite for workers. It builds palaces for richs, batten crates for workers. It generates beauty and injury. It makes the part of work with machines but it forces workers to work barbarically and it transforms rest of the workers into machines." Karl Marx, Ökonomisch-philosophische Manuskripte aus dem Jahre 1944.

The question of how the extraordinary productivity increase is attached to the organization of pure labor force in industralized society is explained a little bit strange in Marx. This especially can be seen when Marx defined the value effect of "machine on the product". "At this point, capitals make worker work with machine instead of a tool. At first glance, the inclusion of natural forces and natural sciences into the production process will greatly increase this, but this increased productivity is not met by increased labor costs on the other hand. Like the other parts of capital, machines do not create a value but they give their values into the products they helped to produce. Machines have became one of the elements for creating value when they have carried and added value." (MEW 23:409). Contradiction became apparant herein. The addition of natural forces to production process is not creating a value for Marx. Structural and speculative labor force in machines can be assigned to goods in little quantums only.[8] Marx's primary delusion on industrial society is over here for us. This does not occur just on communal labor production, this extends itself to exterior energy resources and its form at the same time and begin to regenerate itself with energecy resources especially with oil and coil (Altvater 1992:23- 33).

Marxist labor theory of value does not hold a significant meaning for the determination of the value of goods through human labor because it causes an assumption unavoidably. If a product has more labor, this product will become more valuable. However, since production area is separate from circulation area and it is seen only on market process, the information of relevant value is mandatory or ineffectual and it does not have an ability of expressing in this manner: "Every progress in capitalist farming culture is not only the progress of robbing workers but also robbing the land as well. Every production increase in a certain time period means the evanescence of the resources of this production increase at the same time too. Therefore, capitalist mode of production generates the combination of technical-communal production process by burying all resources of wealth and what it buries is land and worker." (MEW,1967, 23cilt: 529).

According to Marx, the value of human in capitalism has a meaning for what they produce, not for being a human. With Engels, Marx emphasized righteously that there is an important problem in both economically and morally. Ever-growing unemployment and constant deteriorative working conditions will cause the reaction of people eventually and it will bring about a revolutionist political transition in company with this reaction as well. In that case, capitalism is really an ideology without any future. Nevertheless, Marx's theory of collapse is not based on the vision of self-destruction for capitalism. The annihilation of capitalism is the revolutionary mission of human ultimately. Marx regarded the proletariat as the executor for the annihilation of communal exploitation and to embrace a new communal development step. The most important mission of revolution is to annul private property on means of production for Marx.

8 It should not be forgotten that Marx observed manuel drapery machines rather than big machines and industrial development had started just yet in his period.

According to Marx, generated exploitation forms after hunter-gathering society will be extinguished and the prehistory of humanity will be ended with the collapse of capitalism (MEW 20). According to Hyman, a radical clash of interests in capitalist societies will bring along ineliminable conflict between investor and labor force as well (peaceful periods might happen of course). If this had been a sovereignty conflict, then, this would have be eliminated only with the collapse of capitalism and free, self-developed human and society would have been constituted (Hyman 1975:20).

What is Perfectionism?

Perfectionism within the scope of political philosophy is the redirection of human's personal developments and the exitence of contentful visions about life. At this point, it is accepted that people have already directed themselves into this thought. According to this thought, a permanent happiness and state of goodness exist after a related endeavour. People have directed themselves to a desired path for this "goodness" in practical terms. This situation is called as "self-oriented obligations" in philosophical tradition. Needless to say, other people should be encourages in this path as well, videlicet, these are the obligations towards the others. What kind of targets they are, how they will be achieved, or to what extent they will be reached, and how the result will be with encouragement, are all forms of different versions of perfectionism. The elementary idea of "good-oriented development" is followed by all of them. This ethics is not a new one, it can be found in the tradition of philosophers such as Aristotle-Von Aquinas-Spinoza-Kant-Mill. The new thing is, a fortiori, its rediscovery by contemporary Anglo-Saxon philosophy (it is in the works of Joseph Raz, Thomas Hurka, George Sher or feminism).

The heritage of classical ancient education, which was instructed in 19th century schools, drew attention in Marx's education. *Eudaimonie,* videlicet, lively life is the target of both personal efforts and political society. In classical German education, Kant, Goethe and Herder targeted self-development of individual in the same way. According to Marx, *"Divinity shows a general target to humanity and this makes both humanity and himself more noble"* (Marx-Engels, 1953). Needless to say, an individual has to decide how s/he can make this job in the best way. The term of "divinity" should be considered as the state of harmony with Christian institutionalism because he is not saying "god" in the end. The remarkable thing is his expression of "humanity and himself". Neither society has sacrificed for individualism nor egoism has located into the centre of society herein, instead, a reconciled path has been seeking for both of them.

Perfectionism placed personal skills or general humanistic virtues at its centre rather the question of how its features should be improved. If personal skills or one of the humanistic virtues missed this development, relevant rendezvous would not actualize. *"The purpose is the wealth of humanity undoubtedly, it is our self-perfectionism. The conflict of these two interests and the destruction of one of them by the other one should not be expected because humans can reach their* *perfection only when they serve the wealth of their environment as well."* (MEW supplementary book 1:595). The self-perfection of human in a dialectic structurality is associated with the wealth of environment. The matter of integration of personal and social interests which is a problem of modern political philosophy is answered with a social anthropology herein. This is not possible to accomplish without their both reconciliation. However, individuals should improve themselves and should not be satisfied with pure "priorities" because these can be manipulated so easily. Yet, this answer is differentiated with both liberal thought of Mandeville and Smith, and republicanism of Rousseau. Marx has been just repeating mainly a valid thought for literate and liberal circles in 19th century Germany herein. Marx has indicated that individuals should reason on their abilities by *identifying themselves* in one of his other works because "if we have a preference that we do not have the talent, then we can never honor to this choice duly. The natural result of this situation will be self-humiliation of individuals" (MEW tamamlayıcı cilt 1:593). Although humans share a same "humanistic nature", personal differences exist about skills. Following this condition, a fair distribution of positions on the basis of skills and not to appoint people for their class has demanded by people.

Marx's concept of men is still important for literature. For Marx, "human is most important creature for human." Human is never declared as a new god herein since Marx has influenced from Hegel, there is no omnipotent being such as god herein. Even, the portrays upon god can be considered as a ambiguous self-definition of humans. It is like god as love, compassion and wisdom vs. humans who desire to be like god but never accomplish this task. In the end, these features are not accredited for pure god. Nevertheless, there is a tension between individual and "mankind". Feuerbach has expressed this situation in this manner; *"We have here a clear example of the truth that man's idea of God is the idea of the human individual of his own species, that God as the totality of all realities and perfections is nothing other than the totality of the qualities of the species compendiously put together in him for the benefit of the limited individual, but actually dispersed among men and realising themselves in the course of world history."* (Feuerbach, 1843:12). Until this point, Marx influenced from Feuerbach in his youth. The question transformed to how a reconciliation between individual and kind can be accomplished for Marx. While the formation of living creature is a sensual issue for Feuerbach, Marx saw a practical-political problem in here primarily. If humans need to gather to use all of their means and wealths totally, possible hindrances against a successful socialization should also be envisioned as hindrances against full development of humans like Aristo and Feuerbach had mentioned before. Therefore, the issue over here is not the realization of normative "terms" like freedom or equality, a fortiori, it is a sustainability of humanity in a successful socialization as far as possible. His critical motivation towards capitalism arises from this issue.

Marx has critized capitalism through perfectionist approach. This is a bilateral critique: On one hand, it is the life of individuals who have achieved their goal, videlicet, they can reach the point of self-actualization by mobilizing their skills through self-decided activities and it is not only a socialization of privileged minority but also a socialization which provides a self-actualization of all individuals on the other. This situation should not be opposite to each other but should be together. A fact which creates the core of Marx's critique is obvious herein. Capitalism is based on exploitation. This exploitation causes the formation of classes and it obliterates a successful social structure. Furthermore, it leads the society to direct alienation. Here, humans are in the position to sell their labor force for any usage. Marx indicated that his purpose is to find "human" in economy in the schemata of Paris in 1844. Both individuals, kind as universialization of his purpose and "self-actualization" of humans had been introduced in his successful economy vision in socially and personally. Marx used these quite tough words: *"Supposing that we produce as humans: First of all, i would like to know the my individuality of my production, its specific objectivation and thus individual pleasure, my personality in objective terms, and its sensory." (MEW supplementary book I:462).* The topic in here is the self-relationship of human who is successful through a technical-practical deed. Individuals identify themselves on the result of their activities and reach their "identity" eventually. However, these activities are attached to socialization without thinking monologically. *"While I am using a product, I have felt the pleasure and consciousness which I have satisfied a humanitarian need with my labor, in short, I had already knew that I objectivized a humanitarian being."* (MEW supplementary book I, p. 462).

At this point, he mentioned about sensory dimension. Individuals either supply the needs of humans or humiliate themselves at their jobs in Marx. During activity, the relationship with "kind" separates through symbolic logic forms in the end. This dimension is called nowadays as "acknowledgement-acceptance". He sees that real creature, humanity and social creature is both ratified and materialized with personal activity. (MEW supplementary book I, p. 462). A successful identity is seen as a practicable fact only in this manner. This practice is attached to both significant activity, successful interaction and society. This, however, goes further from practical and social dialogue (me/you relationship). Evil reality is now evaluated in this ideal. For example, religion holds its place as long as "humans cannot own real facts". (MEW 1, :378). In other words, it holds its place as long as humans have to live as below their potentials and social opponent. Marx criticized "the human rights of private property" which attached a particular importance for liberals. *"The self-life of kind is seen and society is reflected as an external frame and a barrier which hinders independence for individuals inside of this."* (Zur Judenfrage 1844, MEW 1 :366). The things which has whispered as anarchism is never a rejection towards society. Rather, it is a demand of representative institutionalization. At this point, Marx sympathized the political formation of USA which has narrow state authority and wide liberties. *"Relevant personal liberty is leading to find the borders of liberty rather than the fulfillment of individual on another one."* (MEW 1 :365). He has fictionalized society in the direction of the institution of liberty. Surprisingly, by using quotation examples from aesthetics in these texts, Marx has determined them as social modes dialectically, plus, they have a crucial role for personal development as well. For instance, human development has been expressed with the terms of music and art pleasures. At this point, Marx referred the context of humanistic perfection. Humanistic perfection is only valid when humans are equipped with suitable resources and necessary liberty. This is actually a really rare condition. Besides, this kind of combination can be thought only for a blissful minority of elites. In this regard, *"Rafael exists inside of everyone and he should develop himself without any barriers"* (MEW 3 :377). In short, there is an appropriate form of education for everyone because *"if you want to get the pleasure of art, you should have an art education too."* (MEW 40, 567). This is not a monetary gain but humanitarian gain or the gain of the*"real wealth"* of human life (Das Kapital – MEW 23:167). The vision of "objective" good life is not tied to a shortification of "virtue-ethic" kind and it has Aristo's impressions about Aristo's mentality of life. This is manifested in an emphasis on a cultured entertainment/relaxation that must be shared with others, for example.

Marx positions "individual" in higher levels at his mature ages. It is also valid with the vision of "human nature". On the other hand, he has defined the hindrances of successful relationships by concrete economization. Undoubtedly, these are Marx's detailed social theory works that he has worked a lot. From now on, Marx has demanded a post-capitalist social model. He labels the free development of every individual as prerequisite of free dvelopment of everyone (MEW 4, s. 482). Semantics changes into a personal "self-actualization" rather than the characteristics of general kind. It is now clear that this is open for everyone, even as a condition for social change from now on. The reason of this different evaluation is probably the work of Max Stirner which is *Der Einzige und sein Eigentum* – and published in 1844. He accused young Hegelians and especially Marx for that they still could not overpass religious alienation not yet in this book because he indicated that these kind-acutalization assumptions are still strange for individuals and they are located as potential sovereign factor in this manner. "If and only the real individual human gets abstract citizenship into himself and empirically becomes homogeneous as fellow individual human, then humanitarian liberation is complete." (MEW 1 :370). It can be seen that Marx had considered this opinion and gave more normative values to individuals.[9] Yet, his critique of capitalism did not change so much.

Ethical Criticism Of Capitalism

The labor has a central importance on humans for Marx. His anthropology and doctrine has constituted on them in a vast scale. Humans interact with animals analogically and nature metabolically through labor. Apart from animals at this point, humans can transform themselves into a usable form.[10] The topic herein is not a survival-oriented mandatory cooperation which has generated through labor but humans materialize their self-actualization both intellectually

9 Also see about the role of Stirner - Was bleibt von der Deutschen İdeologie?, Berlin 2009.

10 The difference between architect and bee is architect has already designed the structure in his head whereas bee produces wax instinctively.

and socially and they create product through labor (MEW 23: 193). In one sense, they are seemed to be equivalent with their products and other people acknowledge them. The design of "non-capitalist" society is embellished with romantic elements. Marx is under the influence of German romanticism since his childhood.[11] The portrayal of human is under the influence of romanticism as well. Marx, though, is against to canonize analepsis and circumstances before capitalism but he condemns personal ownership of bourgeois, income greed and division of labor. Marx has evaluated ideal human as in the terms of the sophisticated, developed, alienated, far from labor and affliated to artistic creation paradigm of perfectionist conception. He sees the paramount reason of human existence in it. The meaning of this is not in money or property any more, rather, it rests on creative and meaningful exitence.

The basis of humanitarian development is formed by equality and fraternity for Marx. Since "German ideology", this development is considered as a non-essential, open and personal process. This vision has a perfectionist basis. Liberal and egalitarian values should serve the personal development; if they did not do this, then, they would not have any values or at least, they would be useless ideologically. Liberty simply can be liberty as long as it helps to individuals for their personal developments. Equality can be equality as long as it is possible for every individuals.[12] Marx is not contemplated liberty and equality as a pure formal-juridicial political category. He wants to uncover the hindrances of them from social and economic contexts unlike liberal theories. Marx's philosophical norm, which measures capitalist relations of production, is an autonomous human who is master of oneself (Waibl, s. 295). In fact, humans not only decide whatever they want liberally, but also they establish whatever rules they want liberally. In this manner, humans can create a humanist society in principle. However, these liberties are abstract. These are clipped in capitalism because workers cannot decide whether to go home or not themselves after his thousandth delivered stuff from A to B. Then again, workers cannot decide how they carry the relevant stuff themselves as well. A dicta within the scope of Rousseau's influence on Marx; *"Humans can be born freely but they are handcuffed to industrial chains in everywhere – division of labor is capitalist organization or labor market"* (Reinhard Zintl - 2005).

According to Marx, social development in capitalist system externalizes humans from humanism significantly because the most important feature of humans is their freedom and this feature is bereft under the capitalist circumstances. Humans are self-alienated in this manner and this has materialized in three ways: Firstly, humans are alienated from the subject of their job within the capitalist labor process. The labor investment into a subject is also brought a demand at the same time. However, Locke's fundamental principle is not valid in capitalist system. When a worker has installed a screw to television in production line, this contributes the

11 It is also valid for Friedrich Engels too.

12 It is difficult to ask what will happen the individuals who do not want to get any more education. Also see about this - Birger Priddat, Humankapital, Berlin 2006, p. 133-142.

fund of capitalist though, worker cannot demand neither in screw nor in television any claim or property under these production conditions. According to Marx, the control of workers on product and process is diminished with increased capital intensity. Secondly, humans are self-alienated in capitalist order. Humans cannot decide what or how to produce and they have turned into the puppets of demand-oriented production eventually. Marx have been leant on Hegel in this critique. Hegel depicted world history in the sense that humans initially possessed animal qualities and then, turned into a conscious-free entity over time. According to Hegel, fully-developed European men can represent hisself and dwell on alternatives. Besides, humans can simply find new ways in accordance with their imagination and fantasies thanks to the possibility of finding alternatives. However, if humans cannot decide their target on labor themselves, they will become the object and go back the periods that humans have already surpassed according to Marx. At least, this condition is valid for people who are dependant on salaries. Thirdly, humans begin to alienate towards other people in the same way as well due to first two alienations. The relationship with other people in capitalism is poisoned with the venom of market (Marks, 1844).

Marx blamed division of labor for these alienations in his one article in 1846. Marx is humanist beyond any doubt. Education is a key which unlocks the door of an appropriate life for human dignity. Many philosophers in classical humanist mentality, like Erasmus von Rotterdam, argued that education is what makes us humans. However, education does not only mean to educate people in one branch because total education unifies, branch education divides. Total education produces common values, branch education trains specialists. Branch education is a competitive position when it is considered in socio-scientific ways.[13] Even though it contributes to wealth of society, individuals pay a high price for this because it makes the activities one way-oriented and it removes the possibility of individual identification in the study. *"When study is divided, everyone has to specify a certain branch for studying and they cannot digress from that branch. They are either hunter, fisherman, shepherd or critic and have to stay in whatever position they have already decided because otherwise, their ties with life will be cut off"* (MEW 3 :33). Marx used these words in his future vision in 1846: *"Society, which is not only active in one branch and get education whichever branch they desire in communist society, regulates the general production and paves the way for possibility to do other things in future in this manner. Humans can do fishing, can work in barn in the evening, can make critiques after dinner and they can do them without being either hunter, fisherman, shepherd or critic."* (MEW 3 : 33). The emerged political diagnosis is the abolition of division of labor. It is a utopic idea based on Robert Owen and Charles Fourier. If writers mentioned about this kind of abolitions today, then, they would mention the formal organization of labor and this will make activities more connected and individual responsibilities have to become mandatory.[14] However, Marx did not stick to this vision. When he has got the bottom of economic theory, he has realized that division of labor

13 Hirsch, Fred: Die sozialen Grenzen des Wachstums, 1980.

14 A critique towards these abolition fantasies, to see: Christoph Henning, Dpression, Berlin 2006, p. 69-76.

is not responsible for the hindrance of liberal development and originally, it is "*capitalist mode of production*". Marx's critique transforms itself into a radical capitalism critique in time. The oppositeness of persons with do more work and have more property appears in capitalism significantly for the first time in capitalism and this manifests itself as a class struggle. Marx and Engels write these words in communist manifesto: *"The bourgeoisie, wherever it has got the upper hand, has put an end to all feudal, patriarchal, idyllic relations. It has pitilessly torn asunder the motley feudal ties that bound man to his "natural superiors", and has left remaining no other nexus between man and man than naked self-interest, than callous "cash payment". In one word, for exploitation, veiled by religious and political illusions, it has substituted naked, shameless, direct, brutal exploitation."* (Marks and Engels 1989:14).

The existence of the structure of capitalist economy, which constrains individual into a confined place, makes him/her unilateral and causes a foreign domination on him/her, and its constraint are underlined by Marx in his works at his maturity. It is surely beyond any doubt that these constraints exist today as well and even it is more intensive than ever before. Typical capitalist for Marx has a production motive for making profits on one hand (in other words, a production which is not made for needs) and *"collection of these production in private hands"* in economic organization depend on a high collaboration on the other. First of all, individuals and their communities have any influence on production because decisions about it will be given by the owners of means or production. Secondly, taken decisions of them are given within the context of profit expectation. This is exactly opposite of real needs in essence. Working people are turning into continous playing instruments by them and are dragged into poverty as well.

Marx's propounded theory of poverty has indicated that more people have to live in poverty step by step within capitalism and minority of capitalists will become richer and richer. However, the circumstances do not happen like this theory actually. Especially, people are under the tamed influence of welfare state. It has the influence to decrease the risk of unemployment and disease and besides, it conduces towards the increase of life standards in many capitalist countries. Marx underestimated the flexible integration capability of capitalist system for workers both socially and politically since his childhood. Therefore, two-class social theory and absolute poverty scenario has been emerged.[15] At this point, Marx almost misprizes the impoverishment of workers economically on moral grounds. The moral problem of capitalism is proceeded from the larceny of people's ontological liberties. In this manner, the possibilities of being human is bereft. Humans are only humans as long as they are the master of their own destiny and execute an activity to give them a possibility to live. (Friedrich Schiller: 1793-1794). If capitalist system dragged people into poverty, then, the problem here would be not their bank accounts but their dignities. For Marx, the meaning of poverty is not only the decrease of salary but also the self-alienation of humans as well. According to Kant's anthropological antecedents,

15 This does not mean that capitalist societies create a class structure, this only means that it can be repaired with the intervention of state or syndicate.

humans lose again their liberty in capitalism. Marx defined an unalienated person and for this definition, people can be themselves as creatures only outside of their business process, in other words, "outside of the obligations of their empire". Moreover, this includes both capitalist and laborer equally. Needles to say, Marx has already knew the importance of division of labor and specialization for increase of wealth and he is not intended to run the wheel of history back. For him, the important thing is "gain freedom through freedom" (Pies Ingo, 2005 :14). Marx's works in his last years are pretty clear. He has criticized child labor which precludes to get normal school education (MEW 23, p. 422). In spite of this, he formulated the target of *"high communal form that its basic principle is to ensure for each individual to develop themselves fully and freely."* To guarantee this form, he reported that two momentum is necessary. First of all, he asserted the condition of free time. For Marx *"real wealth"* is only possible with free time which is reserved for free development. Second one is the necessity of "*successful society*". Because humasn are a communal being and they cannot develop themselves as an individual. Humans should not repress this communal persona different from their communal life because it is in the way of constraint: "Humans are not only a political or social animal in essence, but also they can become an isolated animal within society" (MEW 13, s. 616)·

Conclusion

The actualization of labor force and its dawn is only possible in alienated form. It is unidirectional and it can be formed only in the environment of social inequality by materializing with means of abstract tools such as money because theory of exploitation and theory of class is based on this condition. The recreation of society by a new distribution of income policy is not the subject in Marx's writings at his maturity. Instead, the creation of circumstances for a better development of humans is important, in other words, it aims humanitarian wealth. The relevant things is in the rhetoric of Aristotle's perfection ultimately. Marx is a humanist without a doubt and education is the key towards an appropriate life for human dignity. According to his humanist perspective, social wealth should be spent into the points which people can be pure humans. Well, what did capitalism? Capitalism is annihilating old system, clovers or lodge structure etc., videlicet, it is removing all collective groups that organize a protection for individuals and its possession. Instead of them, it organizes major two classes – exploiters and exploiteds. Proletariat, on the other hand, struggles for some important gains after learning to be organized. Socialism, however, actually destroyed this class as well: – strike is forbidden, synidcate is forbidden – only an illusion that the owners of factories are proletariat. In this regard, socialism just continued what capitalism had started honestly. "Well then, what will be treated capitalism at this point?"

References

Altvater, E. (1992): Der Preis des Wohlstandes – oder Umweltplünderung und neue Welt(un)ordnung. (Münster: Westfälisches Dampfboot)

Birger Priddat, Humankapital, Berlin 2006, s. 133-142.

Christoph Henning, Dpression, Berlin 2006, s. 69-76.

Feuerbach,L.(1843).Principles of the philosophy of the Future.

Hirsch, Fred: Die sozialen Grenzen des Wachstums, 1980.

Hyman, R. (1975): Industrial Relations. A Marxist Introduction (London: Macmillan).

Karl Marks, Ökonomisch-philosophische Manuskripte aus dem Jahre 1844.

Karl Marx - Friedrich Engels - Werke, Band 23, S. 11-802, Dietz Verlag, Berlin/DDR 1962

Karl Marx / Friedrich Engels: Manifest der kommunistischen Partei; MEW Bd. 4, S. 468.

Karl Marx,Frederich Engels;Institut Marxsa-Engel'sa-Lenina. Publischer Moscow, Foreign Languages Pub. House, 1953.

Karl Marx/ Friedrich Engels - Werke. (Karl) Dietz Verlag, Berlin. Band 40. Berlin/DDR. 1973. S. 237-255.

Karl Marx/ Friedrich Engels - Werke. (Karl) Dietz Verlag, Berlin. Band 40. Berlin/DDR. 1973. S. 3-12. 1. Korrektur

Karl Marx/Friedrich Engels - Werke. (Karl) Dietz Verlag, Berlin. Band 4, 6. Auflage 1972, unveränderter Nachdruck der 1. Auflage 1959, Berlin/DDR. S. 459-493.

Marx, K. & Engels. F. (1989): Manifest der Kommunistischen Partei (Stuttgart: Reclam), Downloadmöglichkeit unter: http://www.mlwerke.de/me/me04/me04_459.htm

Marx, Karl / Engels, Friedrich: Die deutsche Ideologie; MEW Bd. 3, S. 33. Es handelt sich hier um ein typisch aristokratisches Ideal des selbstbestimmten Müßiggangs, wie man es im 19. Jahrhundert häufig antrifft.

Marx-Engels-Werke (1972). Bd. 40; Ergänzungsband 1 (Berlin (DDR): Dietz) Downloadmöglichkeit unter: http://www.mlwerke.de/me/me40/index.htm

Marx-Engels-Werke(1967). Bd. 23; Das Kapital, Band 1 (Berlin (DDR): Dietz). Downloadmöglichkeit unter: http://www.mlwerke.de/me/me23/index.htm

Marx-Engels-Werke(1972). Bd. 40; Ergänzungsband 1 (Berlin (DDR): Dietz) Downloadmöglichkeit unter: http://www.mlwerke.de/me/me40/index.htm

Marx-Engels-Werke, (1972). Bd. 3 (Berlin (DDR): Dietz). Downloadmöglichkeit unter: http://www.mlwerke.de/me/me03/index.htm

Pies, Ingo: Theoretische Grundlagen demokratischer Wirtschafts- und Gesellschaftspolitik – Der Beitrag von Karl Marx. Wittenberg-Zentrum für Globale Ethik. Diskussionspapier Nr. 05-3 (2005), S. 14.

Schiller, Friedrich: Über die Ästhetische Erziehung des Menschen in einer Reihe von Briefen (1793/1794). In: Sämtliche Werke, Band 5. Hrsg. von Gerhardt Fricke und Herbert G. Göpfert. München: Hanser 1959, S. 570-669.

Waibl, Elmar: (1992).Ökonomie und Ethik. Band 1. Die Kapitalismusdebatte in der Philosophie der Neuzeit. Stuttgart.

PART I.

CHAP 6.

ON DISTRIBUTION: RECENT DISCUSSIONS IN ECONOMICS

Aslı Ceren SARAL[*]

Introduction

Economic distribution has long lost to economic wealth and growth in being the fundamental issue of orthodox economics. However classical economists like Ricardo and Marx had given that first place to distribution, and there had been a certain interest from neoclassical economists like Wicksell, Clark, Wicksteed, Hicks and Douglas (Atkinson, 1975, p. 2). The issue rather neglected during Golden Age probably due to widespread relative economic prosperity and then has gained popularity again due to the raising income inequalities after the end of the period.

However, with a paradigm change, the inquiry into income distribution shifted its subject from functional income distribution to personal income inequalities, and has transformed to an effort to analyze and to partially solve an economic problem, namely the economic inequalities between various groups of society. This way of thinking is quite different from "an enquiry into the laws which determine the division of the produce of industry amongst the classes who concur in its formation" as quoted from Ricardo.

In this context, first the theoretical and historical background of discussions on income distribution for the period from classical economists through the end of Keynesian Era is reviewed in the paper. The impact of Neoliberal policies on raising inequalities is discussed under the second part. Later the recent literature on income distribution and inequalities argued.

Historical and Theoretical Background

In the history of economics thought interest in problematic of distribution has been extensive for certain periods. When economics as a science was first founding, distribution had been seen as one of the main problematic. During the era of physiocrats and classical economists with a difference in the degree of importance given and in approaches, distribution had been at the centre of the discussions. In their way of thinking, causes of wealth and its distribution were

* Ankara University, Faculty of Political Science, Department of Public Finance, Cemal Gürsel Bulvarı 06590 Cebeci ANKARA, saral@politics.ankara.edu.tr

strongly related with the class structure of industrial capitalism. The famous quote of Ricardo ([1817] 2001) from the preface of his magnum opus reveals that way of thinking:

"*The produce of the earth - all that is derived from its surface by the united application of labour, machinery, and capital, is divided among three classes of the community, namely, the proprietor of the land, the owner of the stock or capital necessary for its cultivation, and the labourers by whose industry it is cultivated.*

But in different stages of society, the proportions of the whole produce of the earth which will be allotted to each of these classes, under the names of rent, profit, and wages, will be essentially different; depending mainly on the actual fertility of the soil, on the accumulation of capital and population, and on the skill, ingenuity, and instruments employed in agriculture.

To determine the laws which regulate this distribution, is the principal problem in Political Economy."

As it can be seen from the above quotation, the classical economists were interested in the functional distribution rather than individualistic approach of today's distribution analysis. Moreover they addressed the issue of distribution within the social class structure like other issues. In this respect, their approach differs from the neoclassical economists who are assumed to be their successors. Another important difference between classical economists and their presumed successors about the issue of distribution is the importance that had given by them. As asserted by Sir Keynes ([1936] 2013, p. 4), while Ricardo had shown no interest in *causes of wealth distinct from its distribution*, by the Ricardian tradition, his theory has used for the analysis on causes of wealth. As sir Keynes too mentioned, the famous part of Ricardo's letter to Malthus shows his focus on distribution explicitly:

"*Political Economy you think is an enquiry into the nature and causes of wealth—I think it should be called an enquiry into the laws which determine the division of the produce of industry amongst the classes who concur in its formation. No law can be laid down respecting quantity, but a tolerably correct one can be laid down respecting proportions. Every day I am more satisfied that the former enquiry is vain and delusive, and the latter only the true objects of the science.*" (Ricardo, ([1819-1821], 1962, p. 278-279)

A functional approach to distribution necessitates the understanding of the determination of returns to production factors. In this context determination of the rents, profits and wages was an important discussion in classical political economics. Here, there are different approaches among economists regarding the emphasis on production factors and causality between relation of production and distribution. i.e. for Ricardo the main issue regarding the distribution had been the adverse impact of the increase in the share of rents on the economy. And about the causality of relations, most of the classical economists assumed that the distribution relations precede the relation of production; but Mill views that the laws of production and distribution differ, as the former depends on the given technical and physical reality and the latter on the institutional structure and laws of the society (Blaug, 1985, p. 180).

The determination of wages (at least in the long run) may be the sole issue that classical economists had consensus on. From physiocrats to Smith and Ricardo, it is assumed that the long run wage level would have been at the subsistence wage level, due to the assumption that population growth rate would be faster than agricultural production and capital accumulation growth rate (Rothschild, 2005, p. 78). Marx also argued that in the capitalist system there would be unemployment even at the subsistence wage level and this phenomenon is the main determinant of the distribution (Sandmo, 2015, p. 15). This sustained unemployment or with the words of Marx; "reserve army of labour"; works to the detriment of the class struggle of the workers and thus keeps the wages at the subsistence level.

The reason for including Marx in the category of classical economists is that even though he reaches inherently disparate conclusion, he had pursued the road that preceding economists like Smith and Ricardo paved the way for. The notion of "surplus value" gives a brief summary of his separation regarding distribution theory. Surplus value, which can be defined as the difference between the value created by the labour and the value paid for it in return, not only displays the distribution relations but also the exploitation. Marx also defines the relations of production and distribution and causality between them clearly. The reproduction process depends on distribution relations, for that the earnings of labour spend on consumption and earnings of capital to a large extent spend on reproduction and thus the magnitude of capital accumulation depends on the absolute magnitude of surplus value (Levine, 1988, p. 52). Thereby distribution relations determine the magnitude of capital accumulation.

While Marx was first publishing his magnum opus, a so called revolution in economics was around the corner. With a paradigm change in economics, the marginal productivity theory (even though it has the origins in classical economics) has emerged in the writings of Jevons (1871), Walras (1874), and Menger (1871) (Braff, 1988, p. 75). In the 1890s with combining marginal productivity and marginal utility theories, neo-classical economists revealed a distribution theory of their own (Blaugh, 1985, p. 308) Despite their claims of being the successors of classical economists, they have abandoned a fundamental part of their processors' distribution theory, namely the class analysis; by defining the problematic of functional distribution as a subset of price formation, in which the production factors earn correspondingly to their marginal product. Thus, marginal productivity theory treats all the production factors equally and as a result labour should employ capital equally as capital employs labour (Braff, 1988, p. 80). In this context there isn't any relation between capitalists and workers based open coercion.

The latest version of neoclassical distribution theory which has widely accepted by orthodox economics was asserted in the twentieth century (Blaugh, 1985, p. 465). This latest version was done by Hicks ([1932], 1963) in his book titled Wage Theories by demonstrating marginal productivity within total production function. The quotation below from the aforementioned book's first chapter titled marginal productivity and labour exposes the essence of the neoclassical distribution theory:

"The theory of the determination of wages in a free market is simply a special case of the general theory of value. Wages are the price of labour; and thus, in the absence of control, they are determined, like all prices, by supply and demand. The need for a special theory of wages only arises because both the supply of labour, and the demand for it, and the way in which demand and supply interact on the labour market, have certain peculiar properties, which make it impossible to apply to labour the ordinary theory of commodity value without some further consideration."

After Great Depression and Second World War there had been a new paradigm shift; Keynesian view predominated in economics literature and economic policies. Under Keynesian paradigm, interest in problematic of distribution decreased probably depending upon three reasons. First the main problematic of Keynesian economics and policies was the employment. The distribution is not a main theme in Keynes' Employment, Interest and Money, the term distribution is used thirty two times in the book and not ones in a headline (Giovannoni, 2014a, p. 7). Having said that, in the last chapter of the book titled "Concluding Notes On The Social Philosophy Towards Which The General Theory Might Lead", Keynes regards the wealth and income inequality as one of the main problems of society with employment. In this part, having mentioned about great deal of employment in the rest of the book, Keynes focuses on economic inequalities (Keynes, [1936] 2013, p. 372). In this context he reveals his thoughts on the issue: "For my own part, I believe that there is social and psychological justification for significant inequalities of incomes and wealth, but not for such large disparities as exist to-day." (Keynes, [1936] 2013, p. 374).

Second, for a long period of time changes in functional distribution has been minor or measured in such a fashion. Lastly, after the Second World War, Western economies have had unprecedented growth rates and increase in general welfare. That is the reason why the phrase "Golden Age" is used for the large of the period. It is possible that due to the significant improvement in income inequalities between 1930s and 1950s and increase in welfare, distribution issues might have became of secondary importance (Atkinson and Bourguignon, 2000, p. 2).

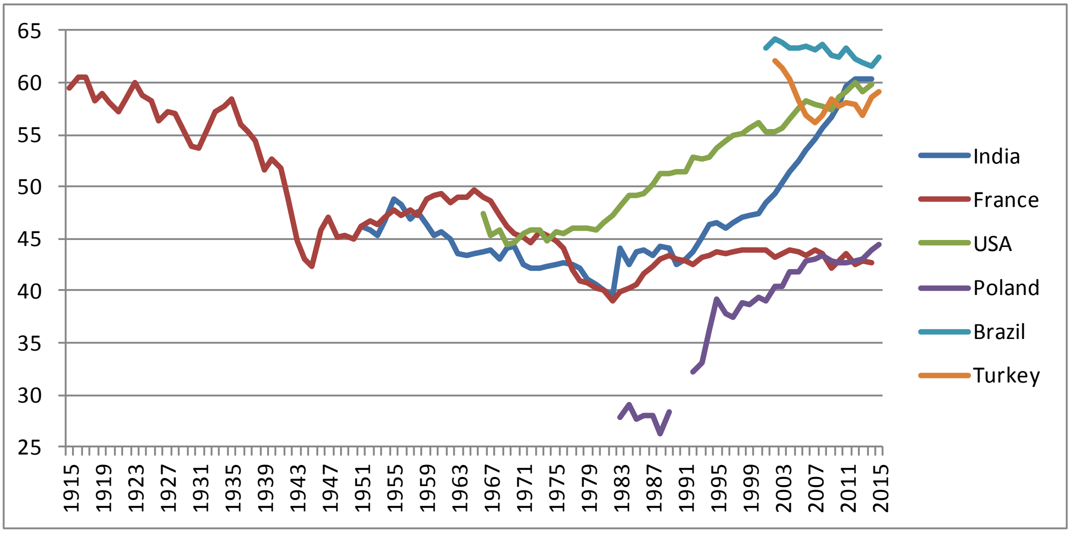
But after the end of the period with so called stagflation crises in 1970s, income inequalities had begun to increase in an unprecedented trend. 1970s were also a predecessor period of a new era with a paradigm change in economics, namely neoliberal era. These two issues are discussed in the following part.

Neoliberal Policies, Paradigm Change and Rising Inequalities

The shift in the analysis of income distribution cannot be thoroughly understood without comprehending the impact of neoliberal paradigm and policies. In order to understand the impact of neoliberal paradigm shift on both raising inequalities and economics literature on distribution, the process of neoliberal reconstruction, globalization and financialization should be analyzed.

The increase in economic inequalities in the last four decades is evident for the majority of the economies. The trend can be seen in the following graph for US, India, France and Poland.

Graph 1 Income Distribution: GINI Coefficient (%)



Source: The World Inequality Database

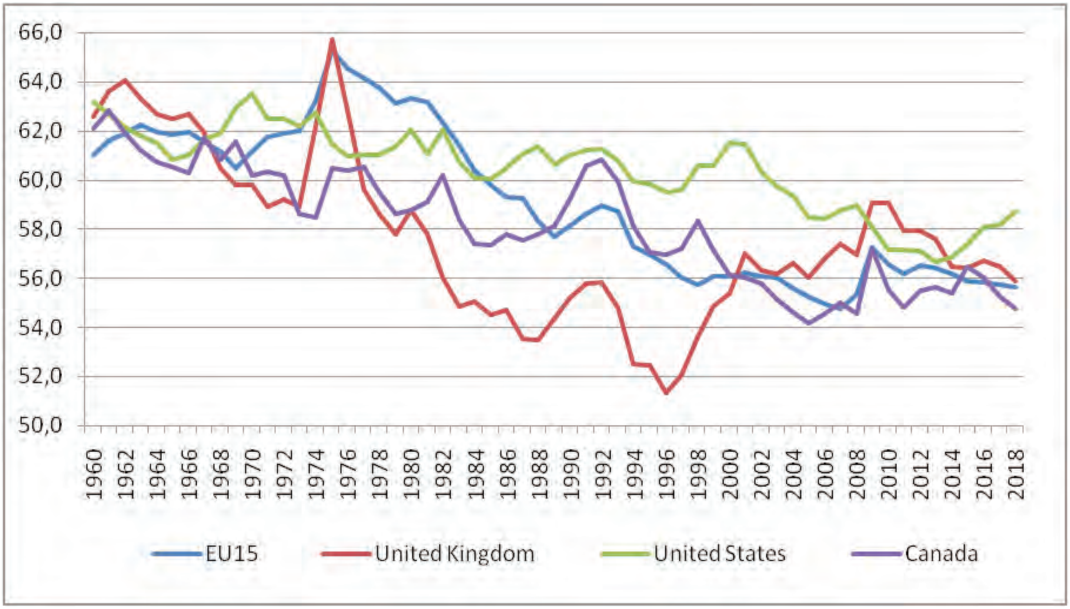
Brazil and Turkey also included in the chart to show the high inequalities in those two major developing countries. The mildest increase is in France (among other countries on the chart), which is a good example for the welfare state. Though the longest data on the chart, the data of France shows a lower level of inequalities today, compared to the beginning of the 20th century, the dataset of Lindert and Williamson (2016) on US income inequalities from the colonial era shows that the highest level of income inequalities are the recent ones for US.

After an overview of inequalities, the underlying reasons of these inequalities, three pillars of neoliberal policies, neoliberal reconstruction, globalization and financialization should be analyzed. Greater labour market flexibility has been a distinctive feature of neoliberal reconstruction. Labour market reforms that are disadvantageous to workers had adverse effect on both

Gini coefficient and wage share together with other reforms like tax reforms in favour of capital and privatizations.

Neoliberal globalization also has been partly a process that is working against wage shares and more equal distribution. Liberalization of trade and capital movements ended up with a widespread corporate globalization. Ability to carry production facilities to areas with low wages had been in great disadvantage of labour, especially integration of huge countries with very low wages like China and India. Increase in global reserve army of labour has been enabling the wage repression since. All this process has caused not only the increase in personal income inequalities as can be seen in graph 1 but also a dramatic downward trend in wage shares of advanced countries (see graph 2 below) which in turn is one of the most important component of the increase in total income inequalities.

Graph 2 Adjusted Wage Shares (%)

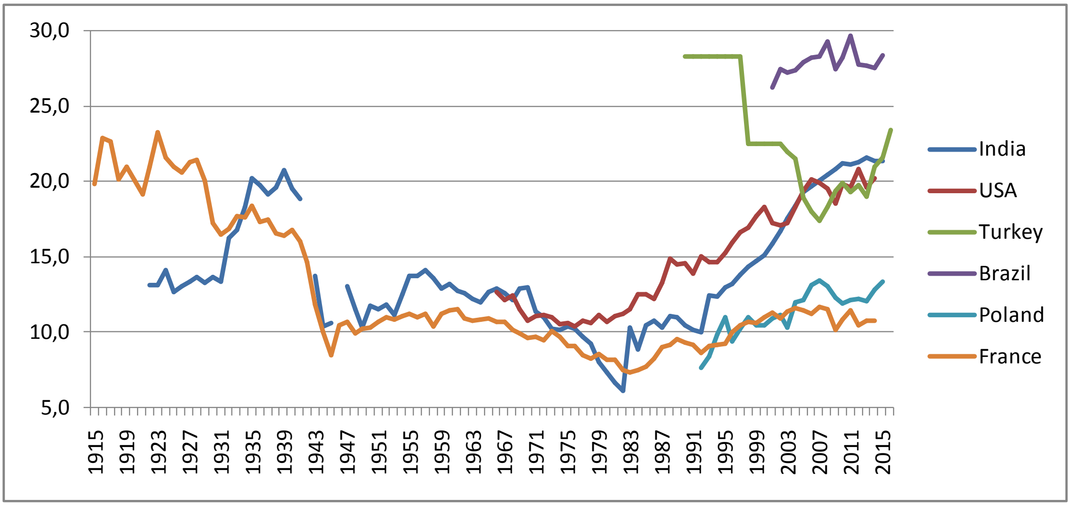


Source: AMECO

Probably the most important impact regarding the sustainability of inequalities has been the financialization process. Declining income of the population, who earns low to middle and consumes most of their income, could have caused a realization problem if it wasn't for the financialization process. Debt-led consumption that has enabled by financialization has been the solution for this lack of demand threat. This debt-led consumption has also caused the rise of financial expropriation of workers and others. Financialization infected all economy and made the majority of countries' population indebted, with "the financialization of personal income, mostly expenditure on housing but also on education, health, pensions and insurance." (Lapavitsas, 2009, p. 15).

Financialization process with the raising inequalities in favour of upper classes threatens the justifications (similar to aforementioned quotation from Keynes) regarding the existence of income inequalities. "American dream" reflects these justifications: economic inequalities are outcome of just and fruitful competition. But as the gap between social classes widens and partly reflects the high profits and salaries in financial sector that creates fewer jobs then other sectors and contributes less to social production, it is harder to defend the justifications of income inequalities.

Graph 3 Income Share of Top %1



Source: The World Inequality Database

The most discussed data on this issue is the increasing income and wealth share of the top %1. The graph 3 reflects the inequalities in graph 1 and this indicates the role of the increase income shares of top %1 in total inequalities. The general increase after 1980s is evident in the chart. The phenomenon of inequalities needed to be explained, whether or not justified, as they reached high levels and its negative impact on economic growth became evidential.

The Course of Economic Distribution Analyses in Recent Decades

The rising inequalities, notably in US, increased the interest in distribution analysis especially after 2000s. But the inquiry was not into the laws that determine the distribution, rather into the underlying reasons for undesirable levels of inequalities and thereby functional income distribution analyses have given way to personal income inequality analyses. Also, as one of the main causes of the rising interest has been the adverse effects of inequalities; many of the studies that investigate the distribution or inequalities analyze the effects of the distribution and thereby not including it as the main subject but rather as an input in their research.

There are several reasons underlying the shift of interest away from functional distribution to personal distribution. First of all for a long period changes in functional distribution measured or assumed to be insignificant in economics (i.e. constant share of labour imply in popular Cobb-Douglas production function). Another possible reason is the ideological view shift depending upon changes in the structure of the social classes associated with returns on factors of production. The split between workers and capitalists/landlords regarding their returns as wages and profits/rents became rather blurry as people begun to gain various kinds of returns (Glyn, 2011, p. 102). But relying on a class-based analytical framework, this blurriness can be eliminated.

On the other hand the improvement in statistical researches and the widespread usage of statistical data in economics had been a significant promoter of income distribution analysis. In the 1930s, 1940s and 1950s, measuring and analyzing the functional income distribution have been important issue and one of the main reasons of founding the national accounts in US and UK (Giovannoni, 2014b, p. 3). But today it is not easy to use official databases for distribution analysis as they are not fabricated for the purpose. There were also advances in econometric tools that enabled the analysis; one of the most used one today is the Gini coefficient based on Lorenz curve.

Atkinson (1997, p. 298) reveals neglecting of distribution in economics with analyzing the contents of Economic Journal between1940-1990. The analysis indicates that about % 4 of an average of 38 articles per year are on income distribution. Analyzing the papers after 2000 to-day in American Economic Review reveals a rather increased interest. There are 110 articles on economic inequalities; and distribution term used (regarding economic distribution) in the titles only twelve times; inequalities (regarding economic inequalities) for sixty nine times and redistribution (regarding income redistribution) twelve times out of 110-120 articles in average per year. It is a rather higher ratio comparing with the findings of Atkinson for earlier years and the shift from functional income distribution to personal income inequalities is evident.

Also investigating the subjects of the articles in the Journal inform about the recent discussions on economic distribution/inequalities. The consumption inequality is an important issue due to the gap between income and consumption brought about by the financialization process. Effects of the family on income distribution are also addressed in the studies. In this regard there are articles on effects of intergenerational mobility which refers to opportunity to change one's social status beyond her/his family and on effects of marriage i.e. whether assertive mating affects the inequalities or not.

Another highly analyzed and debated issue is the inequality amongst wages. The personal differences in abilities like received education or even IQ are the main independent variables in the analyses of wage inequalities along with technical changes and globalization. Gender and racial- ethnic backgrounds are the usual social-economic variables. These issues are also generally discussed in economic inequality analyses beyond the wage differentials. Advances in technology and globalization (mostly the trade liberalization, less the increase in global capital flows) are the main causes addressed for the inequalities in orthodox economics (for the recent discussion on effect of new technologies see Acemoglu and Restrepo (2018)). The adverse effects of these issues are too complex on global level to be solved; therefore discussions on the issues are rather fruitless for policy implications in the framework of orthodox economics.

The surge for policy remedies against rising inequalities aroused the interest of international institutions, especially whilst adverse effects of rising income inequalities on economic growth became evident. There had been certain interest amongst international institutions like IMF and OECD along with others. OECD has published many research materials on the issue of income inequalities (see OECD (2011) and OECD (2015) for comprehensive inequality analyses) and also provides a dedicated database, namely OECD Income Distribution Database (IDD), *to benchmark and monitor income inequality and poverty across countries.*

IMF also has a dedicated page for income inequalities. The interest of IMF in economic inequality mostly arises from the effects on economic growth and the role of government policies. Considering the role of the Fund in austerity policies especially for developing countries, and the consequences of these policies, there is a sense of confession and mostly justification of their previous policy "recommendations" in the publications. For the view of IMF on theoretical matters see Dabla-Norris et. al. (2015) and for policy implications IMF (2014). Some of the works of IMF and OECD also focuses on functional distribution especially in relation with globalization due to the sharp decline in labour share (Glyn, 2011, p. 102).

Amongst the papers on distribution in the American Economic Review, there are also papers belong to highly influential economist and academician Thomas Piketty on the issue of distribution. The paper "The Evolution of Top Incomes: A Historical and International Perspective" that he and his colleague Emmanuel Saez has published in 2006 is one of the early outputs of the project on developing a "high-quality, long run, international data base on income and wealth concentration using historical tax statistics" (Piketty and Saez, 2006, p. 200). Later on, when he published his magnum opus "Capital in the Twenty-First Century" in English in

2014, it has created such an enormous impact that it reached the first place in the nonfiction bestseller list of New York Times[1] and sold over two million copies. For a long nonfiction book this had seen as an important success. With his own comment (Piketty, 2015, p. 48) the book is about the history of distribution and wealth and uses a special dataset on structure of national income and wealth which has been created by the efforts of several dozen scholars. Despite the fact that the main argument in his book that the gap between rate of return on capital (r) and growth rate (g) in a fashion that $r > g$ is the main underlying reason of wealth inequalities has been quite controversial, the efforts of Piketty and his colleagues have certainly fostered the interest in economic distribution and have provided a useful database[2].

The overview provided in this paper involves the orthodox economics. There is a vast and fruitful literature on income distribution in heterodox economics, but as the neoclassical paradigm still dominates, this literature is still peripheral to economics. One of the rather popular discussions from heterodox literature is the debate on functional distribution that has carried on by the post-keynesian economists through wage shares. These discussions have their origins in Kaleckian growth and distribution theory. In this context one of the main research questions is whether the growth is wage-led or profit led. Based upon the results they have gathered for the majority of the countries, higher wages would promote economic growth and so policies in favour of relative wage increases would also promote growth. For further information on the studies please see Lavoie and Stockhammer , eds. (2013).

There are other alternative policies and institutions against economic inequality suggested in literature. One of them is highly debated universal basic income or citizen's income that refers to an unconditional income paid to every individual as a right of citizenship. In January 2017 Finland started a trial of universal basic income on a random sample of unemployed people aged 25 to 58 and this trial has draw interest all around the world. For rather radical two distributive institution proposals in this context see Wright, ed. (2003). Regarding both employment and distribution, guaranteed public employment that is historically not uncommon (i.e. Humphrey–Hawkins Full Employment and Balanced Growth Act of 1978 in US) and altering the direction of technical change in favour of labour by using R&D funds and subsidies of the government are the other alternatives (Atkinson and Bourguignon, 2014).

Conclusion

The trend in economic inequality probably would continue if it takes its course, as the usual causes seem to exist in the future. Some of them expected to be worsening like technological changes. As 2007/2008 global financial crisis had shown, financialization is not a sustainable solution for the inadequate demand and globalization does not solve the demand problem

1 https://www.nytimes.com/books/best-sellers/2014/05/18/hardcover-nonfiction/
2 World inequality database, https://wid.world/

permanently either. So the adverse effects of inequalities on economic growth would probably deepen. The inequalities are inherent to capitalism, as a matter of fact, considered to be the natural outcome of healthy competition. But the adverse effects of neoliberal policies have caused such an increase in inequalities that even some of the strong advocates of the system regard the new level of inequality harmful.

Moreover, egalitarianism is an important moral feature of today's advanced democracies even though there is a moral hypocrisy regarding the matter. Without a determined solution seeking, on both national and global levels, the economic inequalities seem to become worse and would have adverse effects on the political regimes. In this context the choice would be between reducing the economic inequalities with determination and confronting more oppressive regimes. This raises the need for a view apart from neoliberal paradigm that has been the fundamental cause of rising inequalities and seeking for policies and regulations in currently heterodox but perhaps historically more common realms.

References

Acemoglu, D. and P. Restrepo. (2017). The Race between Man and Machine: Implications of Technology for Growth, Factor Shares, and Employment. NBER Working Paper No. 22252.

Atkinson, A. B. (1975). The Economics of Inequality. Oxford: Clarendon Press.

Atkinson, A. B. (1987). Bringing Income Distribution in From the Cold Economic Journal. Vol. 107 No. 441 (Mar., 1997), pp. 297-321.

Atkinson, A. B. and F. Bourguignon. (2000). Introduction: Income Distribution and Economics, in. Handbook of Income Distribution. First Edition. Eds. A. B. Atkinson and F. Bourguignon. Elsevier.

Atkinson, A. B. and F. Bourguignon. (2015). Introduction: Income Distribution Today. in Handbook of Income Distribution. ed. Anthony B. Atkinson and François Bourguignon. Amsterdam: North-Holland.

Blaug, M.. (1985). Economic Theory in Retrospect. 4th Edition. Cambridge: Cambridge University Press.

Braff, A. J. (1988). Distribution: Neo-Classical. in Theories of Income Distribution. ed. A. Asimakopulos. Kluwer Academic Publishers. pp. 75-104.

Dabla-Norris, E., K. Kochhar, F. Ricka, N. Suphaphiphat, and E. Tsounta. (2015). Causes and Consequences of Income Inequality: A Global Perspective. IMF Staff Discussion Note: 15/13.

Giovannoni, O. (2014a). What Do We Know About the Labor Share and the Profit Share? Part I: Theories. Levy Economics Institute. Working Paper No: 803.

Giovannoni, O. (2014b). What Do We Know About the Labor Share and the Profit Share? Part III: Measures and Structural Factors. Levy Economics Institute. Working Paper No: 805.

Glyn, A. (2011), Functional Distribution and Inequality. in The Oxford Handbook of Economic Inequality eds. W. Salverda et. al. New York: Oxford University Press. pp. 101-126.

Hicks, J. R. ([1932], 1963), The Theory of Wages, New York: St Martin's Press

IMF (2014). Fiscal Policy and Income Inequality. IMF Staff Policy Paper. January 22, 2014.

Keynes, J. M. ([1936], 2013). The General Theory of Employment, Interest and Money; The Collected Writings Of John Maynard Keynes. Volume VII. Cambridge: Cambridge University Press.

Lapavitsas, C. (2012). Financialised Capitalism: Crisis and Financial Expropriation. in Financialization in Crisis. ed. C. Lapavitsas. Leiden: Brill.

Lavoie, M. and E. Stockhammer (eds.) (2013). Wage-led Growth: An Equitable Strategy for Economic Recovery. Basingstoke: Palgrave Macmillan.

Levine, D. P (1988). Marx's Theory of Income Distribution. in Theories of Income Distribution. ed. A. Asimakopulos. Kluwer Academic Publishers, pp. 49-74.

Lindert, P. H. and J. G. Williamson (2016). Unequal Gains: American Growth and Inequality since 1700. Princeton University Press.

OECD (2011). Divided We Stand: Why Inequality Keeps Rising. Paris: OECD Publishing.

OECD (2015). In It Together: Why Less Inequality Benefits All. Paris: OECD Publishing.

Piketty, T. (2014). Capital in the Twenty-First Century. Harvard University Press.

Piketty T. and E. Saez (2006). The Evolution of Top Incomes: A Historical and International Perspective. The American Economic Review. Vol. 96, No. 2. pp. 200-205

Ricardo, D. ([1817] 2001), On the Principles of Political Economy and Taxation, Ontario: Batoche Books

Ricardo, D. ([1819-1821], 1962). The Work and Correspondence of David Ricardo, Letters 1819-1821. 8th Edition. Eds. Sraffa, P. and Dobb, M.H., Cambridge: Cambridge University Press

Rothschild, K.W. (2005). Employment Wages and Income Distribution Critical Essays in Economics. New York: Routledge-Taylor & Francis e- Library.

Sandmo, A. (2015). The Principal Problem in Political Economy: Income Distribution in the History of Economic Thought. in Handbook of Income Distribution, eds. Anthony B. A. and F. Bourguignon. Amsterdam: North-Holland. pp. 4-65.

Wright, E. O. (ed.) (2003). Redesigning Distribution: Basic Income And Stakeholder Grants As Alternative Cornerstones For a More Egalitarian Capitalism. The Real Utopias Project Volume V. May 2003.

PART I.

CHAP 7.

MARGINALIST REVOLUTION: FROM POLITICAL ECONOMY TO NEOCLASSICAL ECONOMICS

*Hüsnü BİLİR**

Introduction

The "Marginalist Revolution" which took place in the late 1800's represents a critical shift in the history of economic thought. Because economy was embedded in a broader social, political, historical and institutional setting in classical political economy, however this conception was replaced by a new one which approached economy in terms of market exchange and choice between ends and scarce means. In this way, the subject matter which was production, wealth and its distribution, development, division of labor, accumulation and growth in classical political economy, changed to individual choice and maximising behavior. Consequently economics as a separate science disconnected his social ties and tended to natural sciences especially physics and mechanics, while political economy was closely related with other social sciences like history, ethic, sociology and psychology.

The aim of this study is to reveal the transition process from classical political economy to neoclassical economics with regard to "Marginalist Revolution." In this respect the general historical development and the methodological evolution of economics as a social science will be traced, and the and these particular schools of economic thought and their basic assumptions will not be investigated comprehensively. The study is organized as follows. The second section presents a brief overview of classical political economy as a social science. In this section it's not discussed all clasical economist in detail and emphasised that economy was ragarded as a part of much broader social, historical, political and institutional context in works of particularly Adam Smith and Karl Marx. The third section presents some important consequences of the transition from classical political economy to neoclassical economics in terms of the subject matter, analytical method and the relationship between economy and society.

Classical Political Economy as a Social Science

"Classical economics" or "classical political economy" as Marx (1859/1904) denoted refers to a school of economic thought that developed in the middle of the eighteenth century and was

* Asst. Prof., Aksaray University Faculty of Sport Sciences Department of Sport Management **husnubilir@aksaray.edu.tr**

elaborated in the first half of the nineteenth century especially in Britain and France. The main thinkers of classical political economy are Adam Smith, David Ricardo, Karl Marx, John Stuart Mill, Thomas Malthus, John Baptiste Say and Nassau Senior. Of course, the emergence of classical political economy was a long process, in other words the formation of political economy as a science was largely the result of the advances brought about by the Mercantilists and the Physiocrats in the sixteenth and seventeenth centuries and the first half of the eighteenth century (Cardoso 2004, p. 3; Landreth & Colander, 2002, p. 76).

And it was Smith who collected and organized the ideas and concepts which already existed in the works of Mercantilists and Physiocrats into a broad and coherent system (Barber, 1967; Mills, 2002; Rothschild, 2002; Schumpeter, 1954; Vaggi and Groenewegen, 2003) which he called "political economy[1]". In this context it's commonly regarded that the beginning of classical political economy is Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* (hereinafter referrred to as *the Wealth of Nations*) in 1776 (Barber, 1967) and also he is considered as the founder of classical economic thought[2] (Drakopoulos, 2016, p. 22). The other major treatises which describe this tradition of thought were Ricardo's (1772-1823) *on the Principles of Political Economy and Taxation (1817)* and Mill's (1806- 1873) *Principles of Political Economy, with Some of their Applications to Social Philosophy (1848)* (hereinafter referred to as *Principles of Political Economy*) in the nineteenth century.

Classical economists have some common ground about the nature and process of economy. First of all, as O'Brien (2003, p. 113) stated most classical economists had intellectual interests besides economics such as journalism, the law, and business -especially banking- and few had academic employment. Secondly they recognized the complexity of human societies and regarded economy as a embedded part of society. In this regard, as Boettke, Leeson and Smith (2008, p. 15) noted, their object of investigation was a part of a much broader social science inquiry that included and drew heavily upon other disciplines such as history, politics, sociology, philosophy and psychology[3]. Thirdly political economy as a social science had historical, political, social and institutional dimensions. They focused institutional structures of any society because institutions "not only shaped social outcomes, but also because they were shaped by social outcomes. The classical economists were thus first and foremost concerned with these institutions and the features of man's reality that give rise to them" (Boettke et al., 2008, p. 15). Fourtly, the main issues focused in classical economic thought was big questions such as the process of economic growth, distribution of income, value, balance of payments and the price level (Barber, 1967; O'Brien, 2003).

1 Smith (1776/1827, p. 282) defined political economy as treating of the "nature and causes of the wealth of nations."

2 Smith is also considered as the first truly academic economist (Roll, 1973), while Barber (1967) regarded Malthus as the world's first professional economist.

3 On the other hand, the Newtonian physics had great influence in the occurance of classical political economy. Because most of the main contributors to the classical tradition viewed the "economic order as analogous to the physical universe depicted by Newtonian mechanics. Economic affairs were regarded as governed by laws which, though ascertainable by man, lay beyond his direct control" (Barber, 1967).

This situation perhaps is most clearly seen in Smith's analysis. Because Smith investigated the causes of the national wealth, forces of economic growth and policies that promote economic growth in his magnum opus *the Wealth of Nations* and provided a comprehensive and integrated view of the economic process. He is widely notable for his "invisible hand" which refers to a natural process leads to a harmony between self-interests in the economy and his famous passage reflects his thoughts about the relationship between self-interest and public interest:

"As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes interest of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good" (Smith, 1776/1827, p. 184).

However he tried to explain economic relationships within the context of a society embedded in moral and legal system, when he developed his process of market mechanism, in other words, he saw his theory of the market mechanism and the invisible hand as an integral part of a much broader social, historical, legal and institutional framework. So, as O'Brien (2003, p. 113) stated, individual pursues self-interest that constrained by a framework of law, religion, and custom, and an inherent moral sense (sympathy), and this brings about a coincidence of private and public satisfaction[4]. And Smith revealed his moral philosophy when stated the basic of his system: "Every man, as long as he does not violate the laws of justice is left perfectly free to pursue his own interest in his own way" (1776/1827, p. 286).

In this respect Smith did not treat human nature as a "natural" fact, an exogenous datum. Instead, he endeavoured to identify the processes by which the social context influences the formation of the person (Screpanti & Zamagni, 2005, p. 79). So we could say that Smith showed that the economic system can be seen under a more general aspect and economic ends take place within a social context; in this framework there is a continuous interaction between social norms, legal system, institutional structure, historical process and individual behaviour[5] (Alvey, 2000; Rothschild, 2002; Skinner, 2003).

4 And institutional framework included well-defined and secure property rights, diffusion of agricultural property through control over the concentration of inheritance, and the provision of an infrastructurewas also important in Smith (O'Brien, 2003, p. 122).

5 Similarly Malthus saw economics as a moral and political science, and explicitly followed in the tradition of Smith. Malthus stated that "the science of political economy bears a nearer resemblance to the science of morals and politics than to that of

Marx used the "modes or techniques of production" to explain the historical stages of society and the dynamics of capitalist system and combined economic analysis with philosophical and sociological elements (Reuten, 2003, p. 152). And for Marx, each society is characterised by some general economic features: production, exchange, distribution and consumption. But they find their concrete expression at a specific time and place in history (Vaggi & Groenewegen, 2003, p. 160). While criticising Pierre-Joseph Proudhan, he emphasised the importance of historical process:

"He (Proudhan) fails to see that economic categories are but abstractions of those real relations, that they are truths only in so far as those relations continue to exist. Thus he falls into the error of bourgeois economists who regard those economic categories as eternal laws and not as historical laws which are laws only for a given historical development, a specific development of the productive forces" (Marx & Engels, 2010, p. 100).

Accordingly economic, sociological, political and cultural factors are interdependently related and subjected to continuous historical change in Marx. So it's the history and social context that forms human beings, not "nature": "the development of an individual is determined by the development of all the others with whom he is directly or indirectly associated" (Marx & Engels, 1976, p. 463). In this regard ahistorical and universal categories cannot capture the essential features of a specific socio-economic system (Hodgson, 2001, p. 46). From this point of view, he conceived any society as political, legal, cultural, historical and economic domains and discussed it in terms of "infrastructure" and "superstructure":

"In the social production of their existence, men inevitably enter into definite relations, which are independent of their will, namely relations of production appropriate to a given stage in the development of the material forces of production. The totality of these relations of production constitutes the economic structure of society, the real foundation, on which arises a legal and political superstructure and to which correspond definite forms of social consciousness. The mode of production of material life conditions the general process of social, political and intellectual life. It is not the consciousness of men that determines their existence, but their social existence that determines their consciousness" (Marx, 1859/1904, p. 11-12).

On the other hand, the other main classical economists such as Ricardo and Mill have adopted different approaches about the nature of economy. For example, Ricardo saw economics as a technical rather than a moral subject and stated that the principal problem in political economy was to determine the laws which regulate the distribution of income (Ricardo, 1817, pp. iii-iv). Ricardo, contrary to Smith and Marx, transformed both the scope and the method of economics. First, he switched from contextual analysis to more abstract deductive analysis,

mathematics" (1820/1836, p. 1). In this regard, Malthus criticised the over-emphasis on deduction and generalisation. He wrote "the principal cause of error, and of the differences which prevail at present among the scientific writers on political economy, appears to me to be a precipitate attempt to simplify and generalize" (Malthus, 1820/1836, p. 4).

emphasizing the importance of internal logical consistency in abstract models. In doing so, he provided the methodological basis for neoclassical economics (Landreth & Colander, 2002, p. 232). In this direction, Hutchison (1978) argued that the Ricardian influence in economics produced a "methodological revolution" and moved the discipline away from the Smithian position.

Mill is an interesting figure among the classical economists, bacause he recognized the determinant role of social context in economic outcome like Smith and Marx on the one hand, he adopted deductive method for economic analysis like Ricardo on the other hand. For example, he noted that the social outcome was subject to human control and also he did not believe that all actions were motivated by self-interest. He believed only that most people whose personalities were molded by a competitive capitalist culture acted out of self-interest in their economic behavior (Hunt & Lautzenheiser, 2011, p. 187).

However Mill claimed universality for the laws of production and argued that political economy as a science is an abstract science of prediction and control, and used some mathematics in his analysis (Alvey, 2000, p. 1240). For Mill, as Landreth and Colander (2002, p. 173) emphasised, the economist makes certain assumptions and then deduces conclusions from these assumptions. Because the experimental method is not available to economists, they must rely on the deductive technique and cannot use the inductive techniques that have been so fruitful in the natural sciences. Mill is, however, careful to point out that the conclusions that economists derive from their deductive models should be verified by a comparison with the facts of life[6].

In this regard, Mill is considered as a transitional figure between classical political economy and neoclassical economics because of his influence on Jevons (largely negative) and on Marshall (positive) (Vaggi & Groenewegen, 2003) and as the precursor of the much more moderate Marshallian school of neoclassical economics (Hunt & Lautzenheiser, 2011).

Economics as a Science of Choice

Classical economists especially Smith and Marx regarded economy as a part of broader social, political, historical and institutional domain and discussed economic process within this context. But this approached turned to a narrower and formalist one which is called "neoclassical economics" in the end of the nineteenth century. And along with this critical change, the name of the discipline changed from "political economy" which called by classical economists to "economics". And this change is identified with "Marginalist Revolution" in the history economic thought. This term firstly was used by Mist (1946) and it's commonly regarded that the "Marginalist Revolution" has began with the publication of three books[7]: William Stanley

6 Also Mill is considered as the first to articulate the notion of an "economic man" who is assumed in the science of political economy to be a wealth maximizer (Alvey, 2000; Morgan, 2006).

7 By the way it's argued that the "Marginalist Revolution" didn't arise suddenly, but rather it was a process (Blaug, 1973; Hodgson, 2005). In this regard, for studies discussed the "Marginalist Revolution" in the history of economic thought

Jevons's *Theory of Political Economy (1871)*, Carl Menger's *Grundsdtze der Volkswirtschaftslehre (Principles of Economics) (1871)*, and Leon Walras's *Elements d'économie pure, ou théorie de la richesse sociale (The Elements of Pure Economics or the Theory of Social Wealth) (1874)*.

The term "Marginalist Revolution" is commonly used to indicate a sudden change of direction in economic science, with the abandonment of the classical approach, and the shift to a new approach based on a subjective theory of value and the analytical notion of marginal utility (Roncaglia, 2005, p. 278). In this respect, it's safe to say that the "Marginalist Revolution" was based on the concept of "marginal utility" which was firstly formulated by Jevons, Walras and Menger and then elaborated by other economists between the period of 1870-1890. In this period, as Screpanti and Zamagni (2005, p. 164) stated, Marshall, Edgeworth, and Wicksteed in England, Wieser and Böhm-Bawerk in Austria, Pantaleoni in Italy, and Cassel and Wicksell in Sweden published fundamental works within the context of new approach. In this context, Rima (2009) described Walras, Jevons and Menger as "first-generation marginalists" and Francis Edgeworth, Philip Wicksteed, Alfred Marshall, Friedrich von Wieser and Eugen Böhm-Bawerk, Knut Wicksell, John Bates Clark and Irving Fisher as "second-generation marginalists", while Landreth and Colander (2002) characterised Jevons, Menger and Walras as the first generation of marginal utility theorists, while he described Austrians Friedrich von Wieser, Eugen von Böhm-Bawerk, J. B. Clark, Knut Wicksell, E H. Wicksteed and F. Y. Edgeworth as the second generation of marginalists[8]. There is a consensus among the historians of economic thought about that economists who adopted marginal analysis is regarded as neoclassicals (Colander, 2000; Milonakis & Fine, 2009a, 2009b; Schumpeter, 1954; Pressman, 2006). The term of "neoclassical economics" was originally coined by Thorstein B. Veblen (1900) to charactarise Marshall and Marshallian economics, and later Hicks and Stigler extended the meaning of this term to embrace all marginalists (Colander, 2000).

So neoclassical economics refers to a critical shift in economic thought and this transition from classical political economy to neoclassical economics (or marginalist approach) has some important implication:

1. There's been a transition from political economy to economics, first of all, and the most important figure in this process was Marshall. It's accepted that the term of economics came into use in economic litarature by *Principles of Economics* (1890) (Mullberg, 1995; Milonakis and Fine, 2009b). The change occured in the name of discipline reflected the titles of important works such as Walras's *The Elements of Pure Economics or the Theory of Social Wealth (1874),* Menger's *Principles of Economics (1871) and* Marshall's *Principles of Economics (1890).*

---

see. Black, 1973; Blaug, 1972; Bronfenbrenner, 1971; Coats, 1993; Ekelund and Hébert, 2002; Hodgson, 2005; Meek, 1977; Screpanti and Zamagni, 2005.

8 Milonakis and Fine (2009b) qualified Jevons, Walras and Menger as "early marginalists", and Marshall and his followers as "old marginalists".

For example, Marshall explained the necessity of the replacement of political economy by economics in terms of political interests:

"Political economy examines the Production, the Distribution and the Consumption of wealth. It seeks for the cause which determine wages, profits, and rent; it inquires how far these causes are fixed by unchangeable natural laws, and how far they can be modified by human effort (...) The nation used to be called 'the Body Politic.' So long as this phrase was in common use, men thought of the interests of the whole nation when they used the word 'Political'; and then 'Political Economy' served well enough as a name for the science. But now 'political interests' generally mean the interests of only some part or parts of the nation; so that it seems best to drop the name 'Political Economy,' and to speak simply of Economic Science, or more shortly, Economics" (A. Marshall and M. P. Marshall, 1879, p. 2).

Similarly Jevons argued that it was proper to use the term "economics" rather than "political economy" in the preface of the second edition of *Theory of Political Economy*:

"I cannot help thinking that it would be well to discard, as quickly as possible, the old troublesome double-worded name of our Science. Several authors have tried to introduce totally new names, such as Plutology, Chrematistics, Catallactics, etc. But why do we need anything better than Economics This term, besides being more familiar and closely related to the old term, is perfectly analogous in form to *Mathematics, Ethics, Alsthetics*, and the names of various other branches of knowledge, and it has moreover the authority of usage from the time of Aristotle (...) It is thus to be hoped that Economics will become the recognised name of a science, which nearly a century ago was known to the French Economists as *la science economique* " (Jevons, 1879, p. xiv-xv, italics belong to Jevons).

And by the end of this process, as Alvey (2000, p. 1242) noted, the name change for the discipline eventually followed and has come to be almost universally accepted.

2. The late 1800's witnessed at the same time a rapid development of the economic profession (De Vroey, 1975, p. 425). Before that, political economy did not have any particulary high academic standing (Groenewegen, 1988; Maloney, 1976; Kadish, 1989): "The study of economic phenomena was not yet a full-time job and few people were economists and nothing else: many were businessmen, or public servants, or journalists, and even the academic teachers of economics, in many if not in most cases, also taught cognate-or even completely different-subjects" (Schumpeter, 1954, p. 384).

As a separate academic domain of investigation, economics was first established at Cambridge University in the last decades of the nineteenth century under the influence of Alfred Marshall. Of course the investigation of economic life long preceded Marshall's efforts, but the academic professionalization of economics served to recharacterize economics as a science (Davis, 2008, p. 7).

3. Along with this professionalization went a gradual narrowing in the scope of the discipline and political economy became economics (Alvey, 2000, p. 1237). This process led to detach economics from historical, philosophical, institutional and psychological elements that were not readily analysed using marginal utility theory. In this way, as Boettke et al. (2008, p. 16) stated, economics which required formal testable propositions, and increasingly actually testing these propositions began to pull away from other social sciences in contrast to the historical or philosophical dimensions of political economy that were not readily amenable to the application of such methods. Milonakis and Fine (2009b, p. 2) described this process as follows:

"Prior to the marginalist revolution, and with classical political economy, theory was concerned with explaining the capitalist economy, drawing upon whatever historical and social factors were considered to be relevant. From Adam Smith to John Stuart Mill and Karl Marx, the economy was treated as part of its wider social and historical milieu, with political economy as a sort of a unified social science to cover this wide terrain. To the extent that political economy did stake out a field of study, it was not one that was artificially separated from other disciplines or fields of study, which in any case were still to emerge (…) This all changed with the marginalist revolution out of which economics was established as a discipline."

In other words, the social and collective categories such as class and distribution of income in classical political economy in which was acknowledged that the economic system was a indispensible part of broader political, historical, moral, institutional and social systems replaced by concepts such as individual consumer and marginal product of labor in neoclassical economics (Alvey, 2000; Drakopoulos, 1997; Rothschild, 1993).

4. The detachment of economics from political, historical, moral, institutional and social concerns restricted the scope of economic subject and economics turned into a science which examined the relationship between given ends and scarce means. In this direction, economics inclined to the natural sciences diverging from economic history and sociology (Milonakis and Fine, 2009b, p. 2) and the basic determinant of economic decision became *individual choice* and *maximising behavior*. For example, Jevons (1879, p. 23) said that "the object of Economics is to maximise happiness by purchasing pleasure, as it were, at the lowest cost of pain." Hereby the area of investigation shifted from macroeconomic issues such as the capitalist economy and its growth to microeconomic issues "exchange", "individual choice", "marginal utility", "marginal costs" and "production functions" (Wolff & Resnick, 1987, pp. 27-8).

5. The other main change was the treatment of value. Because, the main determinant of value became "utility" contrary to "labor" in classical economic thought in this process. In classical thinkers the value analysis manifested their conception of economy, so that the determination

of value was explained in terms of the divisin of labor and production within society, for they regarded economy as a social system. But after the "Marginalist Revolution" it occured a change in conception of value and it began to be analysed with regard to exchange and utility. It means that a value of a given product is determined by its buyer marginal utility. And this change in the theory of value involves, as De Vroey (1975, p. 429) addressed, a radical transformation in the vision of the economic process. In the classical paradigm, economic action was, before all, viewed as a social process. Value was analyzed within the framework of production, viewed itself as a social process whose features are the result of a specific social system. But after the "Marginalist Revolution" the origin of value is searched for in a mental process. Value depends upon the consumer's desires.

6. This shift also established the use of formal methods -mathematics in particular- as the only way of analyzing economic problems scientifically and economists began to apply the methods of natural sciences in economics by emulating the success of natural sciences in the nineteenth century. In this respect, the mathematical method was regarded as "scientific" method For example, while the classical economists used very little mathematics, Jevons insisted that "Economics, if it is to be a science at all, must be a mathematical science" (Jevons, 1879, p. 3) because "in economics, we have to deal with quantities and complicated relations of quantities" so "we must reason mathematically" (ibid., p. 5). Similarly Walras argued that economics should use mathematic: "the pure theory of economics is a science which resembles the physico-mathematical sciences in every respect" (Walras, 1874/1954, p. 181).

Concluding Remarks

In political economy economy was analysed within the social, historical, political and institutional context. The object of economic study was to determine the causes of wealth and the laws governing its distribution. Social classes such as capitalists, workers and landlords were the main categories of analysis and growth, development, accumulation, division of labor, distribution of income were the big questions which political economists asked.

But this picture started to change by the end of the nineteenth century. "Marginalist Revolution" took place with simultaneous discoveries of Walras, Jevons and Menger's in France, England and Germany at 1870's led to a shift in economic thought and the dominance of classical political economy was replaced by neoclassical economics. In neoclassical economics, the subject matter became the optimal utilisation of scarce available resources to satisfy the needs and desires of individual agents. So the focus of analyse was directed to the market exchange and maximisation of utility or profit. And with the change in the focus of analysis, economics detached from social, historical, political and institutional ties and started to emulate the natural sciences especially physics and mechanics. In this process mathematics became the analytic tool of neoclassical economics.

In brief, with the "Marginalist Revolution" the discipline witnessed a crucial shift. Economists began to ask different questions (from growth, development, division of labour, disrtibution of income to market exchange, choice, marginal utility) and the treatment of the relationship between economy and society has changed. There occured a shift in economic thought from the approach that the economy was an an inherent part to society to the view that economy was analysed independently from social context with the transition from classical political economy to neoclassical economics.

References

Alvey, J. E. (2000). An introduction to economics as a moral science, International Journal of Social Economics, 27(12), 1231-1252.

Barber, W. J. (1967). A history of economic thought. London, England: Penguin Books.

Black, R. D. C. (1973). W. S. Jevons and the foundation of modern economics. In R. D. C. Black, A. W. Coats & C. D. W. Goodwin (Eds.), The marginal revolution in economics (pp. 98-112). Durham: Duke University Press.

Blaug, M. (1972). Was there a marginalist revolution? History of Political Economy, 4(2), 269-280.

Boettke, P. J., Leeson, P. T. & Smith, D. J. (2008). The evolution of economics: Where we are and how we got here? The Long Term View, 7(1), 14-22.

Bronfenbrenner, M. (1971, Spring). The 'structure of revolutions' in economic thought. History of Political Economy, 3(1), 1-11.

Cardoso, J. L. (2004). Natural law, natural history and the foundations of political economy. In J. Davis, A. Marciano & J. Runde (Eds.), The Elgar companion to economics and philosophy (pp. 3-23). Cheltenham, England: Edward Elgar Publishing.

Coats, A. W. (1993). The sociology and proffesionalization of economics: British and American economic essays, Volume 2. London, England: Routledge.

Colander, D. (2000). The death of neoclassical economics. Journal of the History of Economic Thought, 22(2), 127-143.

Davis, J. B. (2008). The turn in recent economics and return of orthodoxy, Cambridge Journal of Economics, 32(3), 349-366.

De Vroey, M. (1975). The transition from classical to neoclassical economics: A scientific revolution. Journal of Economic Issues, 9(3), 415-439.

Drakopoulos, S. A. (1997). Origins and development of the trend towards value free economics. Journal of the History of Economic Thought, 19(2), 286-300.

Drakopoulos, S. A. (2016). Comparisons in economic thought: Economic interdependency reconsidered. London & New York, NY: Routledge.

Ekelund, R. B. & Hébert, R. F. (2002, Summer). Retrospectives: The origins of neoclassical microeconomics. Journal of Economic Perspectives, 16(3), 197-215.

Groenewegen, P. D. (1988). Alfred Marshall and the establishment of the Cambridge economic tripos. History of Political Economy, 20(4), 627-667.

Hodgson, G. M. (2001). How economics forgot history? The problem of historical specifity in social science. London & New York, NY: Routledge.

Hodgson, G. M. (2005). Alfred Marshall versus the historical School. Journal of Economic Studies, 32(4), 331-48.

Hunt, E. K. & Lautzenheiser, M. (2011). History of economic thought: A critical perspective. (3rd ed.). Armonk, New York, London: M. E. Sharpe.

Hutchison, T. W. (1978). On revolutions and progress in economic knowledge. Cambridge, England: Cambridge University Press.

Jevons, W. S. (1879c). Theory of political economy (2nd ed.). London, England: MacMillan and Co.

Kadish, A. (1989). Historians, economists, and economic history. London & New York, NY: Routledge.

Landreth, H. & Colander, D. C. (2002). History of economic thought (4th ed.). Boston & Toronto: Houghton Mifflin Company.

Maloney, J. (1976). Marshall, Cunningham, and the emerging economic profession. The Economic History Review, 29(3), 440-451.

Malthus, T. R. (1836). Principles of political economy: Considered with a view to their practical application (2nd ed.). London, England: Pickering. (Original work published 1820).

Marshall, A.& Marshall, M. P. (1879). The economics of industry. London, England: Macmillan and Co.

Marx, K. (1904). A contribution to the critique of political economy (N. I. Stone, Trans.). Chicago: Charles H. Kerr & Company. (Original work published 1859).

Marx, K. & Engels, F. (2010). Marx & Engels Collected Works, Volume 38 (Letters 1844-51). Lawrance & Wishart.

Marx, K. & Engels, F. (1976). The German Ideology. Moscow, Russia: Progress Publishers.

Meek, R. L. (1977). Smith, Marx & after: Ten essays in the development of economic thought. London: Chapman & Hall.

Mills, J. (2002). A critical history of economics. New York, NY: Palgrave Macmillan.

Milonakis, D. & Fine, B. (2009a). From political economy to economics: Method, the social and the historical in the evolution of economic theory. Oxon, England: Routledge,

Milonakis, D. & Fine, B. (2009b). From economics imperialism to freakonomics: The shifting boundaries between economics and other social sciences. London & New York, NY: Routledge.

Morgan, M. S. (2006). Economic man as model man: Ideal types, idealization and caricatures. Journal of the History of Economic Thought, 28(1), 1-27.

Mullberg, J. D. (1995). Social limits to economic theory. London, England: Routledge.

O'Brien, D. P. (2003). Classical economics. In W. J. Samuels, J. E. Biddle & J. B. Davis (Eds.), A companion to the history of economic thought (pp. 112-129). Oxford, England: Blackwell Publishing,.

Reuten, G. (2003). Karl Marx: His work and the major changes in its interpretation. In W. J. Samuels, J. E. Biddle & J. B. Davis (Eds.), A companion to the history of economic thought (pp. 148-166). Oxford, England: Blackwell Publishing.

Ricardo, D. (1817). On the principles of political economy, and taxation. London, England: John Murray.

Roll, E. (1973). A history of economic thought, London, England: Faber and Faber.

Roncaglia, A. (2005). The wealth of ideas: A history of economic thought. Cambridge, England: Cambridge University Press.

Rothschild, K.W. (1993) Employment, wages and income distribution: Selected essays of Kurt W. Rothschild. London, England: Routledge.

Rothschild, K. W. (2002). The absence of power in contemporary economic theory. Journal of Socio-Economics, 31, 433-42.

Schumpeter, J. (1954). History of economic analysis. Taylor&Francis e-Library.

Screpanti, E. & Zamagni, S. (2005). An outline of the history of economic thought (D. Field & L. Kirby, Trans.) (2nd ed.). Oxford, England: Oxford University Press.

Skinner, A. S. (2003). Adam Smith (1723-1790): Theories of political economy. In W. J. Samuels, J. E. Biddle & J. B. Davis (Eds.), A companion to the history of economic thought (pp. 94-111). Oxford, England: Blackwell Publishing.

Smith, A. (1827). An inquiry into the nature and causes of the wealth of nations. Edinburgh, Scotland: Thomas Nelson & Peter Brown. (Original work published 1776).

Vaggi, G. & Groenewegen, P. (2003). A concise history of economic thought: From mercantilism to monetarism. New York, NY: Palgrave Macmillan.

Walras, L. (1954). Elements of pure economics or the theory of social wealth (W. Jaffé, Trans.). London, England: George Allen and Unwin Ltd. (Original work published 1874).

Wolff, R. D. & Resnick, S. A. (1987). Economics: Marxian versus neoclassical. London, England: The Johns Hopkins University Press,

PART I.
CHAP 8.
THE INFLUENCE OF THE GERMAN HISTORICAL SCHOOL ON MAX WEBER'S ECONOMIC THOUGHT

*Gülenay BAŞ DİNAR**

Introduction

Although Max Weber, who was born in 1864, did not receive a formal economics education, he gave importance to economics in his studies as a result of his willingness to embrace an inter-disciplinary approach. Weber, who mainly studied law at the University of Heidelberg, where he enrolled in 1882, also got basic courses related to the field of economics. One of the teachers he had taken courses was Karl Knies (1821-1898), who was one of the important figures in the German Historical School. On the one hand Weber was greatly influenced by Knies, who had holistic and historical approach to economics, but on the other hand he departed from the approach of the German Historical School in many aspects (Swedberg 1990, pp. 563-65). He criticized their approach, which is based on pure descriptive empiricism, excluding any theories, and put forward that an experiment-based historical science can be formed. However, theoretical aim of Weber was not to detect universal laws in social sciences. From this perspective, Weber criticized positivist approach that aimed at forming cultural sciences in accordance with the model of natural sciences (Fleury, 2009, p.21). Weber gave importance to the historicity of the economic institutions and thoughts like the other economist members of the German Historical School and he was the person who pursued the work of that school into an even further generation and era (Ringer, 2014: p.22). Therefore, it is plausible to regard Weber both as heir of the German Historical School and a critic of this school (Fleury, 2009, p.21).

In years when he was a doctoral student, he was a prominent member of an association of German economists called *Verein für Sozial Politik.* The primary aim of this association was to carry out empirical studies that in order to enable formation of policies for solving economic problems. In accordance with this aim, Weber did wide researches on conditions of agricultural workers in 1892 (Swedberg, 1990, pp. 563-565). The association was under heavy influence of Gustav Schmoller (1838-1917), regarded as leader of young the German Historical School. Ideas advocated by the association under the influence of Schmoller began to seem

* Associate Professor, Abant Izzet Baysal University, Faculty of Economics and Administrative Sciences, Department of Economics, e-mail: gulenaybas@ibu.edu.tr.

very problematic to Weber over time. With the publication of an article called *"Investigations into the Method of the Social Sciences: with special reference to economics"* in 1883 by Menger, Schmoller's ideas began to be fiercely discussed. In this article Menger makes a distinction between theoretical and historical economics, he advocated that theory of economy should not be confused with historical evidences related to economy and studies concerning practical politics. According to Menger, by assuming that man is a rational agent, theory of economy can produce theories concerning behavior of these agents. Thus it is possible to generate universal laws which show how the economy functions by taking as a starting point the assumption of rational human behavior. While these theories do not reflect the real life, they function as an analysis tool in the examination of real economies, supposing them in an ideal situation (Ringer, 2014, pp. 27-28).

There are many similarities between Weber's ideas and those of Menger. Weber was heavily influenced by the Marginalist Revolution, one of whose forerunner was Menger. It is possible to see this influence from his studies that contain criticisms against studies of members of the German Historical School such as Knies and Roscher. Because of ideas he put forward in these writings, Hayek considered Weber as a member of Austrian School of Economics (Sunar, 2012b, pp. 126-127).

While Weber was sympathetic to ideas of British and Austrian economists- especially those of Menger- he saw abstract theory of economy as an analytical tool for analyzing real economies rather than seeing it as purpose in itself. Weber's consideration of abstract theory of economy is very different from Menger's. In this context, Weber's studies have a historical and comparative character rather than a theoretical one. Although Weber saw abstract theory of economy as a helpful tool of analysis, he claimed that it is inefficient in the analysis of real economies and further claimed that since the real, existing economies are more complicated formations, they cannot be analyzed by focusing solely on the field of economy. Thus, Weber insistently advocated that economics need a sociological perspective. According to Weber, in real life, the markets do not function in a competitive manner as the abstract theory of economy defined and there are obstacles to efficient functioning of market mechanism. For this reason, Weber thought that abstract theory of economy was insufficient in the researching of empirical situations (Swedberg, 1999, pp. 568,569).

The aim of this paper is to examine the influence of the German Historical School on Weber's ideas on economics by considering Weber's attitude towards discussion of methodology between Menger, one of the most important figures of the Marginalist School and Schmoller, the most influential member of the German Historical School. This study is made up of two parts. In the first part, multi-directional methodological view of Weber will be examined; in the second part, the influence of the German Historical School in the formation of this methodology will be discussed. The paper will come to conclusion after the discussion of similarities and differences between Weber's methodological view and that of the German Historical School.

Weber's View of Social Science and Neoclassical Economics

Weber defined the social science as a science that's willing to understand the social action by the way of interpretation in order to explain its course and effects (Weber, 2014, p.11) and following the German philosophical tradition, used the concept of cultural sciences in order to indicate the social sciences. By this approach Weber saw society as a structure, which can be explained by the subjective meanings of actions of social actors and the network of relations rather than as a natural reality on its own. Therefore, according to Weber, cultural sciences had to be thought of as a course of particular actions. The primary aim of any science that makes human behavior its topic is to interpretively understand the motive behind the action and the course of action (Weber, 2012, p.116). Weber mentioned about two types of understanding, which are understanding based on direct observation and explanatory understanding in his work called "Economy and Society". The first type of understanding is understanding of a particular action by observation and rational thinking. The second type of understanding is related to understanding of the motive behind a particular action (Weber, 2012, p.116).

According to Weber, an activity needs to have generalizing and explanatory character in order to be counted as science. From this perspective, Weber emphasized that cultural sciences are individualizing sciences and understanding (*verstehen*) is the appropriate method for such sciences because culture is different from nature. On the other hand Weber also stated that as long as cultural sciences remain individualizing sciences, they cannot reach science status and called attention to necessity of nomothetic (based on generalization) method that is seeking causality (Özlem, 2017, pp. 315-316). In this context, it is possible to say that Weber tried to seek reconciliation between nomothetic and explanatory approach of natural sciences and individualizing and idiographic (based on understanding) approach of cultural sciences.

Weber puts an emphasis on the understanding of the motives behind the actions that the persons performing the cultural sciences. Likewise, according to Weber, it is hard to understand or predict the human behavior since persons may react differently in similar situations (Ringer, 2014, pp.111-113). In this sense, revealing meaning behind human behavior-that is interpretive understanding- requires a reasoning process. In this framework, Weber's interpretive understanding does not exclude causal analysis. Quite the opposite, Weber tried to construct a bridge between interpretive understanding and causal analysis.

Weber characterized economics as a technique for the reason that science of economics had a practical view such as increasing of wealth. According to Weber, economics, like natural sciences, embraced practical, assessing attitude right from the beginning and tried to reach a realistic and monistic knowledge of reality through a conceptual system consisting of mathematical concepts. In this way, economics pretended to reach knowledge of reality through nomothetic abstractive method and general law formulations based on empirical analysis. Due to success of natural sciences, which accepted that all events generally needs to be analyzed within the framework of valid "laws", scientific study solely began to be viewed as discovery of laws of events. Moving from such a point of view, law-related aspects of events have been analyzed and interest towards events themselves ceased to be seen as scientific interest (Weber, 2012, pp. 112-113)

Weber calls attention to the fact that such form of analysis was insufficient for cultural sciences and he underlined that causal analysis was useful but interpretation was also important in cultural sciences. In this sense, Weber characterized any science dealing with psychological and social events as science of human behavior and included science of economics into the category of cultural sciences. According to Weber, these sciences are interested in understanding the behavior and then interested in explaining through an interpretative manner. Ideal types[1] had an important function in this understanding process. To bring rational explanation to empirical events, it is necessary to ask questions about what it would look like if a thought or behavioral pattern had rational, empirical and logical correctness and consistency altogether. For this, rational, empirical and technical and logical structures need to be formed (Weber, 2012, pp. 66-69). By taking ideal types into consideration, Weber aimed at examining the reality concerning people and society. Ideal types are not identical with reality, but they are in close relationship with reality.

Weber created a set of ideal types about various call ways to which social action can be directed. In this context, in *Economy and Society* he attention to four types of social action. These are instrumental-rational action (*zweckrational*), value-oriented rational action (*wertrational*), affective action and traditional action (Weber, 2012, pp. 132-133). According to Weber, in instrumental-rational action, individual knows his purpose and his tools he had chosen to achieve his purpose. Here, the individual makes an objective rational choice in the direction he desired without any value. In the value-oriented rational action, action is done consciously with reference to a particular value. Traditional action refers to practices that have become habitual depending on traditions and beliefs. Finally, affective action refers to type of action that occurs as response to a stimulus (Ercan, 1995, pp. 137-138).

Weber pointed that various rationality types can be derived from aforementioned social actions because social actions are directed by a rational logic that is specific to type of action. In this context, there are four types of rationality, which are practical, theoretical, formal and substantive. Unlike instrumental and value-oriented types of action, affective action and traditional action are not rational. From rational and value-oriented rational action types, which are among

1 Although concept of "ideal type" begins to become well-known with Weber, the concept had been used before by George Jellinek who made studies in the field of law.

social action types Weber classified, instrumental and substantive rationality types, which are pure forms of rationality, can be derived. Practical rationality is about controlling and directing regularities of social actions in everyday life. Theoretical rationality is about interpreting and arranging of reality through categories and concepts. Substantive rationality prepares individuals' intrinsic and intellectual capacities to participate in value-oriented rational action. In this sense, it offers a perspective in which reality is chosen, calculated and judged. Formal rationality guides social action in accordance with the rules of computability and competence. Weber's definitions about disenchantment of the world and secularization can be presented as examples related to theoretical rationality. Weber's analysis of bureaucracy, on the other hand, point to the importance of formal rationality in the formation of institutional structure of modern society (Çiğdem, 2005, p. 150).

Weber calls attention to the point that formal rationality can actualize under certain social circumstances. In this sense, Weber did not consider formal rationality as a merely mental construct. According to Weber, in a state, in which a perfect free market exists, the price of a good can be calculated rationally. Weber's different definitions of rationality indicate that Weber does not define rationality in a narrow way rather he sees rationality as a broad concept that is value-laden and changes historically and socially. Therefore, Weber's analysis of rationality is more than being an assumption, and it is considered as a thing that changes historically and socially (Swedberg, 2011, p.68).

Economics, one of the branches of social science, is based on individuals who exhibit rational economic action that can be described as ideal type. According to Weber, function of ideal type in research is to determine in which points the empirical reality differs or resembles and to identify these points with most understandable concepts. Ideal types are contrasted with the empirical reality to understand the observed fact in terms of causality and to explain it. In the theory of economy, it is assumed that there are pure economic interests and other non-economic factors are left aside by considering the question "If all acts of humans were completely rational, how would they act under these assumed circumstances?". Neoclassical theory portrays modern social reality as an ideal type. According to Weber, modern organization of modern society is based on rational behavior pattern. Instrumental-rational action had priority in Weber's analysis because instrumental-rationality enables creation of empirical hypotheses about social processes. In this way, it is possible to say that Weber contributed to the legitimization of neoclassical economics' construct based on rationality and to consolidation of neoclassical economics. (Yılmaz, 2009, pp.40-41)

Weber criticized abstract theory of economy that uses methods of natural sciences in analyzing economic events because such analysis only takes economic behavior and historical reality into consideration in a reductionist way. Although Weber criticized abstract theory of economy that imitates methods of natural sciences, he does not advocate that abstract theory of economy is totally useless. Weber reconciled abstract theory of economy with notion of ideal type; by this he thinks that such reconciliation can be used as a useful tool of analysis in the overcoming of tension between history and theory. From the perspective of science of economics, Weber puts forward that the relationship between history and theory is one of the most important problems of the discipline. According to Weber, there is an irreconcilable gap between abstract theoretical method and empirical historical research. Those who advocate abstract theoretical method think that general laws needs to be formed instead of detecting historical knowledge of reality. Weber expresses that such perspective is still dominant despite the success of the German Historical School in the field of law and economics (Weber, 2012, p.114).

According to Weber, abstract theory of economy, as an ideal type, describes the way how commodity market works in a society, which is organized in accordance with exchange economy, free competition and principles of rational behavior. This theoretical pattern allows the analysis of certain relational events of historical life in an intrinsic and consistent manner. According to Weber, it is not important that whether abstract theory of economy, as an ideal type, had any relation with the empirical reality. Thus, Weber likens the ideal type to a utopia attained by emphasizing certain constituents of reality analytically. In this respect, ideal types allow the development of explanation skill in research. According to Weber, ideal type is not a hypothesis, but it helps the formation of hypothesis. Ideal types are not a description of reality, but they help the description of reality. Thus, ideal type, which is put forward by abstract economy, offers the idea of historically-given modern society based on exchange economy. Historical research is confronted with the task of determining the degree to which ideal construct approaches or departs from reality in every single case (Weber, 2012, pp. 117-118).

According to Weber economics, which is an empirical science, has to be an objective science, purified from value judgements. Weber does not mean that value judgements have to be completely ignored in scientific debates when emphasizing that an objective science has to be purified from value judgements. Weber states that behavior and thoughts of humans are intertwined with their values because he thinks human is a cultural being. This effects whole research process ranging from tools used in research to topic of research. Even so, Weber indicates that researchers have to put aside their value judgements while doing research (Weber, 2012, p.78).

Weber states that ideal type approach is important for cultural sciences to be objective science, purified from values. In this context, ideal types allow researcher to focus on certain aspects of complicated phenomenon (fact) and also enables analysis to be shaped by analytical reasoning within the context of these aspects. Weber does not consider concept of ideal type as a desired-state. In the analysis of Weber, ideal types are used as an analytical tool, which allows cultural sciences to examine objectively and to make abstractions.

Weber rejects the notion that there can be general laws, which had universal validity and uni-directional rational explanation forms. However, he puts forward that ideal types can be useful in the explanation of complicated historical facts. Weber considers ideal types as simplified or exaggerated characterizations about complex phenomena. Often, the ideal types Weber actually suggested were based on rational action model. The purpose of Weber in using ideal types is to contrast ideal types with reality and to reach some causal relations about reality that is sought to explain. In this framework, according to Ringer (2014), ideal types make sense only to the extent that they permit such an explanation (Ringer, 2014, pp. 11-12).

The German Historical School and Weber

During the period when Weber's methodological view developed, a method dispute called *Methodenstreit* broke out between Gustav Schmoller, one of the most important figures of the German Historical School, (1838-1917) and Austrian economist Carl Menger (1840-1921). Menger, together with Leon Walras (1834-1910) and William Stanley Jevons (1835-1882), is one of the important figures of the Marginalist Revolution[2]. Menger together with Jevons and Walras put forward a new theory of value, which is based on utility instead of classical theory of value based on labor.

Theory of value of classical economics, as Marx defined, apparently demonstrates the exploitative nature of capitalism. In this period both unstable and exploitative nature of capitalism presented itself explicitly and that caused opposition against the system. In this period a new theoretical framework, which can be proponent of capitalism, was required. Founders of the marginalist analysis devised a theoretical framework, which aimed at defending capitalism, against Marx's thesis. In the new theoretical framework, the theory of value based on labor, which indicates the exploitative nature of the system, was abandoned.

In the first half of 19th century, thinkers such as Senior, Bastiat, Bentham and Say criticized Ricardo's labor theory of value and put forward that source of value comes from utility. However, because these economists did not discover marginal utility that is, they just took total utility into consideration, they could not establish relationship between utility and price. Since the pioneers of the Marginalist Revolution derive from the concept of marginal utility, they succeed in establishing a relationship between utility and price. Thus, the Marginalist Revolution established a theoretical basis that related value with utility. The Marginalist Analysis allowed the development of a theoretical framework that became basis of various thoughts such as that free exchange market is good, in capitalist system all production factors received income as much

2 Being Among the founders of neoclassical economics, Carl Menger is an economist who had the least reputation because of not giving place to mathematics. Neither Jevons nor Walras did not see Menger as one of the founders of the Marginalist Revolution. Jevons' rejection of mentioning the name of Menger in his work and Walras' claim that Menger did not understand mathematical nature of his study are good indicators of this fact. In addition, Walras underestimated the book of Menger, called the "*Principles of Economics*" (1871) by considering it as translation of the marginalist ideas into a vulgar language. In fact Menger was the most capable defender of neoclassical front against the German Historical School in his method dispute against Schmoller. Besides, it is possible to say that Menger is the person who contributed the most to consolidation of thought of methodological individualism, which is the basis of neoclassical economics (Yılmaz, 2009, p.82).

as production they contributed to, thus in capitalism relations of division are fair and legitimate, and in capitalist system market mechanism always brings about effective results. Besides, the marginalist analysis is a theory suitable for the use of mathematics in economics. This enables the marginalist economists to benefit from exactness of mathematics in forming their theories. With the advent of usage of mathematical exactness in economics, ideological advocacy of capitalism began to be made much stronger under guise of scientificness.

Transformation in economics led to outbreak of dispute, called *Methodenstreit* in literature, which continued for almost 40 years from late 19th century to early 20th century. Weber's view on this dispute is crucial in understanding of Weber's attitude towards this transformation in economics. As it was mentioned before, *Methodenstreit* commenced between Menger and Schmoller. In this dispute while Schmoller advocated the historical method, Menger advocated the marginalist method. Although this dispute broke out between Menger and Schmoller, origin of the dispute dates back to much before. In the method discussion, the whole issue was whether society could be examined independently of history and culture by just taking principally rational, mental and psychological characteristics of human into consideration (Akyurt, 2017, p. 278). At this point Menger stated that economic actions are determined by individual decisions in accordance with thought of methodological individualism. According to Menger, science of economics has to deal with concrete human actions instead of abstract categories such as society and history. Within this framework, by moving from individualist basis Menger advocates that an objective economic discipline, independent of place and time is possible. This view marks the basic difference between views of Schmoller and that of Menger. Schmoller criticized the individualist approach of neoclassical economics, which ignored whole picture and emphasized the importance of historical studies. Analysis of influence of institutional framework and historical structure on economics has been priority for the German Historical School, especially Schmoller. At this point, Schmoller pointed to that societies and economies are different from each other and emphasized that laws about economics, which are independent of place and time cannot be formed.

Schmoller was accused of being enemy of theory and of preventing the development of economics. However, theorizing was not something Schmoller opposed to, but he just make a cautious approach to it. Schmoller argued that it is not possible to examine phenomena such as formation of values and prices, income distribution independently from each other with the assistance of singular observations because these phenomena are closely related with morality, law and institutional framework. Schmoller criticized Menger's methodological approach because his approach can cause to overlook these relations. Unlike Menger, Schmoller did not look for particularities. Instead, he wanted to examine economic actions within a holistic and relational framework (Akyurt, 2017, p. 177-179).

Like the economists of the German Historical School, Weber put forward an analysis that attempts to explain origins of capitalism. Besides, Schmoller was one of the most important thinkers that influenced Weber. Publication of Weber's first work in the journal of Schmoller and naming its title as *"Roscher and Knies and The Logical Problems of Historical Economics"* are good indicators of the fact that Weber is closely interested in the German Historical School and Schmoller, who is considered as leader of the school. (Collins, 2017, p.57)

Weber was a thinker who was educated in the German Historical School tradition. Weber was influenced mostly from Knies, who is one of the first generation representatives of the German Historical School. According to Knies, the Classical Economics that handles the economy isolated from society, is a pure fiction which he rejected on ethical as well as methodological grounds. Besides he contended that the assumption of individualist maximum gain is not a true prescription. Knies held that the economic activity was just one part of the unified social life. This activity is significantly affected by the cultural structures of the society. Emphasizing the spiritual forces in shaping the history and society, he drew attention to the causal inherent bonds between all aspects of culture, notably religious institutions, the state and the economic life. Therefore, Knies put forward that causes of actions are not universal in social sciences and they are determined by specific cultural conditions. For this reason, according to Knies, it is impossible to find rigid causal laws in the field of social sciences. However, Knies thinks that with the help of analogies, imperfect regularities can be found in historical process of the nations. In this framework, according to Knies unlike natural sciences, analogies can be formed instead of general laws. At this point, Knies points to the fact that analogies are more prone to be falsified easier than general laws that express universal regularities. However, analogies enable the historians to demonstrate similarities and differences in evolution of the nations. Although Knies thought that an individual was influenced by culture in which he lived, he did not ignore that personal and unique views of an individual are important in history. So even if validity of regular causal connections can be found in the past, it cannot be said that these connections may reoccur in the future because Knies thinks that free human actions can prevent the emergence of same results in the future. In this framework, Knies emphasized causal regularities which can be detected in history are always subject to change, which originate from personal element (Ringer, 2014, pp. 22-25)

Weber was greatly influenced by Knies. In this context, especially the works of Knies concerning history of economics have influence on Weber. Weber embraced Knies' idea that universal laws independent of place and time, which are related to society, cannot be formed. Like Knies, Weber thinks that spiritual forces are important in the formation of history and society. Again, Weber with a similar approach to Knies, does not see man as passive being in historical and cultural evolution. Although Weber followed footsteps of the German Historical School and especially Knies and think on same issues, he departed from them in some points. In this context, Weber critizes the two economists and the German Historical School in his article

"*Roscher and Knies*" for failing to recognize depth of actual complexity of forms and material conditions, which make up various societies and their economies and for basing their explanations on intuitive idealism, assuming that a spirit *Volkgeist*, which appeared in a certain historical period (Collins, 2017, p. 58).

In this article Weber also criticized Roscher and Knies for handling the nations as organic totalities instead of groups of organized individuals. This caused, as to Weber, them to see the spiritual forces as the cause of the socio-historical patterns they actually observed. According to Weber, in trying to avoid the isolation of economic practices from the rest of a nation, they made much of the spiritual forces, thus the spirit became a metaphysical entity in their approach and grew into a substance that may be used in understanding the reality (Ringer, 2014, pp. 71-73).

Weber also objected the German Historical School's assumption that history has its own unique meaning. According to Weber, individuals have control over their fates and are center and reason of their activities. In this sense, Weber emphasized that meaning comes from individuals' struggle to form "meaningful lives" and choices they make to reach this purpose. This approach, which emphasized the priority of individual, has great importance on Weber's thinking. Weber rejected that course of history contains transcendental meaning. At this point, he emphasized that knowledge and action cannot be based on somewhere beyond empirical realm. In this sense, Weber is only interested in empirical science of concrete reality. Adoption of such an analysis does not mean that only individualism is important in his work and common values have to be overlooked. Just the opposite, Weber emphasized the importance of religious beliefs in guiding people's behavior and in the emergence of subjective meaning by adopting a comparative historical approach (Kalberg, 2009, pp. 30-31).

Unlike economists of the German Historical School, Weber did not think that secular, capitalist and industrial societies will be deprived of values or this void has to be filled by values discovered by science. In this framework, Weber rejected the possibility that science can be source of values. According to Weber, each era constitutes its own cultural values. Weber emphasized that our observations of empirical reality are made with reference to these values. In this sense, empirical ground on which science is based is in constant change. The relationship between our observations and these values makes some events visible to us while hiding the other. Some realities can only be understood as culturally meaningful values of a certain age. The dominant viewpoints of any era allow the inhabitants of that era to understand a selected section of the past. Because of the perspectival character of knowledge we possessed, it is impossible to find general laws of history or to write history as it is. Weber both rejected Mengers' nomothetic attitude that claims the duty of social sciences is expression of general laws and Schmoller's idiographic attitude (description of particularities). Weber's rejection of these attitudes enables him to adopt ideal type as main research tool. (Kalberg, 2009, pp.33-34)

As it was mentioned before, Weber emphasized that ideal types can be useful tools for explaining complicated historical reality. Weber's use of the ideal type method indicates that unlike, Schmoller and economists of the German Historical School, he did not completely reject Menger's theory of marginal utility. Although, Weber criticized neoclassical theory of price by emphasizing that neoclassical laws of supply and demand are limited with historicity and thus these laws are not universal, he put forward that neoclassical economics as an ideal type can be useful in understanding modern capitalism. According to Weber, the duty of historical economy should be the demonstration of how and under which theoretical circumstances the market, which is characterizing feature of modern capitalism, emerged. At this point, Weber pointed to the fact that laws related to functioning of market capitalism, put forward by Menger, are not universal, but are specific to a certain historical stage. In this context, it is possible to say that Weber accepted neoclassical explanations related to modern capitalism, as a historical ideal type. Weber regarded neoclassical market conception as an ideal type and sought to base this analysis on a historical and institutional ground (Collins, 2017, p. 58).

Like Menger, Weber saw economic theory as a hypothetical construct rather than an empirical generalization; it predicts how the 'ideal' economic man will act under certain specified circumstances, not how individual or even average human beings can be expected to behave in complex situations. In this framework, according to Ringer, it is not possible to characterize Weber as fully anti-positivist. Weber's adopted view of social science indicates that Weber was a thinker who cannot be considered as an heir to the German Historical School, but be considered as one who criticized this tradition at some points (Ringer, 2014, pp. 69-77).

In similar manner, Collins (2017) also claims that Weber presented an approach, which allows the coexistence of the neoclassical theory of economy and complexity of history in the same scientific universe. According to Collins, another reason why Weber embraced conciliatory approach in *Methodenstreit* is that Weber has a liberal view in terms of politics and is sympathetic to neoclassical doctrine of *laissez- faire*. According to other economists of historical school, political stance of Weber is very influential in his less-critical attitude towards the Neoclassical Economics. Although Weber was aware of the fact that capitalism had some problems, he believed that capitalism is superior to other economic systems due to long term benefits it provided. This ideological stance also has great impact on Weber's sympathy towards neoclassical economics. This can easily be seen from Weber's attitude towards Schmoller and other German economists, who advocated governmental arrangements to solve economic problems, in *Verein für Sozialpolitik* in 1870s. Weber became an active member of *Verein* and began his career with studies he carried out within this association. However, intervening approach of *Verein*, which gave priority to governmental arrangements, became problematic for Weber over time. Weber always objected bureaucratic control of economy. He became suspicious that reformist policies of this association can prevent the development of capitalist market economy (Collins, 2017, pp. 58-60).

Conclusion

Weber offered a different method from natural sciences by devising an interpretive understanding approach for cultural sciences. In this framework, he underlined that because cultural sciences are related with humans, they are individualizing sciences and thus they have to focus on understanding instead of explaining. According to Weber, although primary method of cultural sciences is to understand, they have to be explanative to a certain extent to reach status of science. In this framework, it is possible to say that Weber has a methodology, which brings understanding and explanation together. While Weber is saying cultural sciences have to be explanative to a certain extent, he does not mean that they have to produce general laws just as positive sciences do. Weber put forward that rigid laws for social sciences, which Weber named as cultural sciences, cannot be found. He states that with ideal type approach he devised a number of categories which can be useful in explaining reality can be constructed. For this reason, ideal types become an important ground on which Weber's approach that aims at bringing understanding and explanation together, can be constructed.

In Weber's analysis ideal types are considered as an approach which enables researchers to take cultural sciences into consideration in a rational way and also this approach allows the increase of explanatory power of cultural sciences. However, Weber becomes aware of the fact that explanations, which are made through ideal types, have limited explanatory power. In this sense by using ideal types, Weber's aim is not to reach general determinants, conditioning whole history and all societies.

Although Weber was influenced from the German Historical School, which had holistic and historical approach, he cannot be considered as a thinker who completely followed the footsteps of the German Historical School. Weber criticized the approach of the German Historical School, which is based on pure descriptive empiricism, and ignores any theories. He also pointed to necessity of an objective method, which is based on cause and effect relationship. Like economists of the German Historical School, he gave importance to historicity of economic institutions and ideas and he introduced the studies of this school to next generations. From this perspective, as Fleury (2009) pointed out, Weber is both heir of the German Historical School in some aspects and also critic of this school in some respects. This can be seen apparently from his attitude towards method disputes that broke out in 1883 between Schmoller and Menger. With the concept of ideal type he introduced, Weber pointed out that conciliation between these two methods can be established. According to Weber, ideal types allow the creation of some causal mechanisms which can help explanation of reality by reducing complexity of historical reality. In this context, he pointed that neoclassical economics, as an ideal type, can be useful in understanding of reality.

References

Akyurt, M. A. (2017). Alman Sosyolojisinde Yöntem Tartışmaları (1870-1914). İstanbul Üniversitesi Sosyal Bilimler Enstitüsü Sosyoloji Ana bilim dalı Doktora tezi, Danışman. Prof.Dr. İsmail Coşkun, İstanbul.

Collins, R. (2017). MaxWeber: Bir Klavuz. (Çev. Taylan Banguoğlu), Ankara: Siyasal Kitabevi.

Çiğdem, A. (2015). Bir İmkan Olarak Modernite: Weber ve Habermas. İstanbul: İletişim Yayınları.

Ercan, F. (1995). Max Weber'de Yönteme ve Tarihsel İdeal Tip Olarak Kapitalizm Kavramsallaştırılmasının Kapitalist Olmayan Toplumların Gelişme Süreçlerini Anlama Çabaları Üzerindeki Etkileri. Öneri, 1 (3): 127-48.

Fleury, L. (2009). MaxWeber. (Çev. Işık Ergüden), Ankara: Dost Kitabevi.

Kalberg, S. (2009). MaxWeber'i Anlamak. (Çev. Bedri Gencer), Ankara: Lotus Yayınevi.

Özlem, D.(2017). Max Weber'de Bilim ve Sosyoloji. İstanbul: Notos Kitap.

Ringer, F. (2014). Weber'in Metodolojisi. (Çev. Mehmet Küçük), Ankara: Doğu Batı Yayınları.

Sunar, L.(2012b). Marx ve Weber'de Doğu Toplumları. İstanbul: Ayrıntı Yayınları

Swedberg, R.(1999). MaxWeber as an Economist and as a Sociologist: Towards a Fuller Understanding of Weber'sView of Economics. AmericanJournal of EconomicsandSociology, 561-580.

Swedberg, R. (2011). MaxWeber's Central Text in EconomicSociology. TheSociology of Economic Life(eds. Mark Granovetterand Richard Swedberg), ss. 62-76, Westwiew.Weber, M. (1975). Max Weber: A Biography. New York: John Wiley.

Weber, M. (2012). Sosyal Bilimlerin Metodolojisi. İstanbul: Küre Yayınları.

Weber, M. (2014). Toplumsal ve Ekonomik Örgütlenme Kuramı. (Çev. Özer Ozankaya), İstanbul: Cem Yayınevi.

Yılmaz, F. (2009). Rasyonalite İktisat Özelinde Bir Tartışma. İstanbul: Paradigma Yayıncılık.

PART I.
CHAP 9.

JOHN MAYNARD KEYNES AS AN ECONOMIC THINKER: THE POLITICAL ECONOMY OF EMPLOYMENT

*Yusuf Kemal ÖZTÜRK**

Introduction

Since the unemployment which has become a constant problem in the developing western countries with the impact of the 1929 Great World Crisis, the economy cannot reach full employment again with the automatic mechanism put forward by classical economists. Thus, the automatic balances of the classical system have begun to be suspected (Uzay, 1996, p. 101). Together with the 1929 Great World Crisis, the economy displayed that it could not produce stability without requiring state intervention, and because one of every four people became unemployed, the need for the state intervention on the markets is inevitable. While governments took measures for crisis with non-theoretical politics, the theory of concrete reality was written by John Maynard Keynes in 1936 (Büyükakın, 2007, p. 22).

J. M. Keynes' 1936 publication "General Theory of Employment Interest and Money," paved a way to a remarkable break from the classical literature to the new one. Keynes, who was aiming to find solutions to the problems of unemployment and economic stagnation which had grown as a big hindrance upon economy undeniably because of 1929 Great World Crisis, criticized the Classical School of Economics, which failed to invent a formula to the crisis and argued that The Classical School of Economics' mentality of free market was not reliable.Keynes pleaded the intervention of the state upon economy, which was in the level of underemployment, and thereby, he began to constitute the basis of a new economic movement. (Saydam, 2009, p. 240).

Since the 1929 Great World Crisis was caused by the inadequacy of total demand, Keynes did not find the expression of classical economists which was "supply creates its own demand" as the real economic conjuncture in favor of the market law. According to Keynes, unemployment and inadequate production were the results of 1929 economic crisis which caused by inefficacy of effective demand (Patinkin, 1984, pp. 18-19). For Keynes,"supply creates its demand when the total demand price at all levels of employment and production is equal to the total value" (Keynes, 1936, p. 22).

* Asst. Prof., Amasya University, Turkey, ykozturk@amasya.edu.tr

Explaining his thesis with the effect of effective demand, Keynes was arguing that the economy could achieve an equilibrium not only in the level of permanent full employment but also in the level of underemployment (Özpınar et al. 2011, p. 134). Keynes centered the theory of effective demand in place of Classical Economists' law of markets. Effective demand is the demand in the case where the total supply is equal to the total demand. According to Keynes, even if some of the factors of production are idle, aggregate supply-demand equality can be achieved, and when this equality is achieved, the economy reaches a balance of underemployment. In Keynesian model, the level of employment of an economy is interdependent with the income and expenditure level of that economy. Revenues raises expenditures, expenditure increases the total demand level of the economy, and total demand enhances the level of production and hence,this cycle ends the increased level of employment.In short, consumption and investment expenditures designate the income of the economy and therefore, determine the level of employment (Pekin, 2005, pp. 125-127).

The main theme of General Theory is the failure of the Classical Theory to explain the problem of involuntary unemployment (Snowdanve & Vane, 1997, p. 163). Keynes stated that some people are unemployed when they are willing to work at the current wage level and he argued that there is also an involuntaryunemployment in the economy. According to Keynes, since people demand very few products, businesses demand less labor, and when some of the labor factor is left idle, it is causing unemployment, which means that unemployment is caused by lack of total demand.

The aim of this study is to examine Keynesian Theory of Employment. In the study, the general terms and the analysis of employment of Keynes' General Theory is underlined.

1. Keynes and General Theory

After the Great World Crisis of 1929, Keynes published his work of "The General Theory of Employment, Interest and Money" in which he wrote the theory of concrete reality in 1936. (Büyükakın, 2007, p. 22).

With the work of the General Theory, macroeconomic analysis has become an agenda for economists once again. Thus, the main issue on the agenda is no longer how resource allocation will be, but whether the use of all resources is possible or not. The primary goal of the General Theory is to examine the forces which display fluctuations in the level of production and employment (Bayraktar, 2012, p. 248).

1.1.Income and Employment

Keynes regarded previous economic approaches as classical theory. Because the World Crisis happened lack of total demand, the statement of classical economists, which was "supply creates its own demand", was not realistic according to Keynes who stated that their approach was not in accordance with the conditions of current economic structure.Keynes argued that total demand was not a function of supply, as classical economists argued, but total supply was the function of total demand, and it was driven by total demand. According to Keynes, in the all levels of employment and production, since total supply is equal to total demand's price, a specific supply creates its own demand (Keynes, 1936, p. 22). In Keynesian General Theory, the results of 1929 economic crisis, which was unemployment and deficient production, originated from the undersupplied of effective demand. When demand rose, manufacturers' investment supply would enhance (Patinkin, 1984, pp. 18-19).

1.2. Effective Demand

Keynes, in his General Theory, examined the formation of macroeconomic equilibrium through effective demand per the consumption, investment and saving function. In the definition of Keynes' General Theory, "The total income expected by the entrepreneurs is also included in the effective demand and the effective demand contain the income of other production factors at the level of employment.The total demand function establishes the relationship between different hypothetical employment volumes and expected earnings from production; the total demand function is active at the point of the effective demand.When effective demand considered together with supply conditions, it corresponds to the level of employment that brings entrepreneurial profit expectations to the highest level" (Keynes, 1936, p. 42).

Keynes, in his General Theory, is dwelt on consumption intensively. For Keynes, the sole purpose of all economic activities is consumption (Keynes, 1936, pp. 26-27). The function which shows the expense tendency of the consumer is the consumption function. Income is one of the variables which affect consumption. A steady function of income is consumption. The increase in consumption expenditures is related to the increase in income. Therefore, income increases depending on investment expenditures. In General Theory, Keynes stated that investment function is expressed as autonomous investments and stimulated investments. According to Keynes, the saving function is another function that creates an effective request (Bayraktar, 2012, pp. 249-250).

1.3. Liquidity Preference and Interest Rate

Keynes expressed the money demand concept as a liquidity preference. The money has two functions: firstlyit is a medium of exchange and secondly a store of value. Classical economists have underscored on the function of money as just a medium of exchange. As for Keynes, he dwelt on the function of money as a store of value tool (Bayraktar, 2012, p. 250).

There are three motives for holding money: transactions, precautionary and speculation. The transaction motive facilitates the cash needs for business exchanges with money. Money is kept in cash for an unexpected circumstance with the reserve motive. With these motives, money demand is a function of revenue. In order to prevent the loss from the decline of bond prices, the money demand will be indicated with speculative motive (Keynes, 1936, p. 126).

The saving function and the consumption function are remarked by income. In classical economy, interest rate equals investments and savings. In Keynesian system, interest rate is determined by the relation between money supply, and demand (Keynes, 1936, p. 112).

1.4. Liquidity Trap

The liquidity trap is expressed as the situation in which money demand is fully flexible with speculation motive at the lowest level of interest rate in economy. When the money supply is stable, the money demand quantity with transaction and reserve motive receded because of the decline of price. When the interest rate is high, speculation motive and money demand is lowered. Money is kept in cash when the interest rate falls. However, if the interest rate is expected to be both low and high, the interest rate flexibility of money demand will be endless speculatively. Even money supply will be increased, the interest rate do not fall. When the interest rate is in this kind of level, idle money demand will be fully flexible and this cause liquidity trap.In this condition, monetary policy will be ineffective. (Bayraktar, 2012, p. 251).

1.5. Wage Reductions and Unemployment

According to Keynes, even though there is a reduction in the monetaryprices, monetary price reductions will not be active because prices will decrease but the real wage will not decrease at the same ratio. This situation only reduces the demand for money with discounted rate and price-transaction motive, encourages the purchase of bonds and decreases the interest rate and increases the investments slightly. But if there are liquidity trap and the inequality of savings and investment, interest will not be reduced. Thus, he rejected classical economists' theory of wage elasticity (Bayraktar, 2012, p. 251).

With his General Theory, Keynes criticized the thoughts of classical economists about the problem of unemployment. Keynes also mentioned about voluntary unemployment and involuntary unemployment (Keynes, 1967, p. 15). According to Keynes, in order to solve the problem of involuntary unemployment, the state should expand labor demand by increasing investment. In General Theory, it is emphasized that unemployment arise only due to inadequate demand (Wood, 1994, p. 259).

1.6.State Intervention upon Economy

According to Keynesian General Theory, macroeconomic equilibrium will materialize, when total demand and total supply are equal, or where investment and savings are totally equal. If the total demand is too much or if the investments are more than savings, inflationist gap happens and, if total demand is less than desired, or if investments are less than saving, deflationary gap occurs. Keynes stated that these gaps could be eliminated by the state which can direct the effective demand (Keynes, 1936, p. 67).

According to Keynes, the state needs to intervene in the economy by fiscal policy. Marginal propensity of consumption may be affected by different methods of government. State intervention should be gradual in terms of the rise of effective demand. Where savings are greater than investments, in terms of achieving full employment, public expenditures and consumption tendencies need to be increased. Since the economy itself cannot reach the level of full employment, the state must be intervened in the economy (Keynes, 1936, p. 239).

2. Keynes and Theory of Employment

The proportion of expected profit rate after economic activity depends on effective demand for an economy which seeks profit as a primary goal in its economic activity. While determining the level of effective demand, there is an effect of total supply and total demand functions. For Keynes, the total supply function demonstrates the relationship between the various employment levels and with these employment levels, it shows the total cost of production or the total supply price. The total demand function also shows the relationship between the various employment levels and the expected gain from production at these employment levels (Keynes, 1936, pp. 24-25; Ülgener, 1966, pp. 90-93; Üstünel, 1966, p. 185).

If the expected total demand level in a given employment is greater than the total supply level, since the profit rate will be much in the direction expected by the entrepreneur, the entrepreneurial total demand increases the employment until the total supply is equal. Thus, employment and income levels are determined at the point where there are total supply and total demand functions (Keynes, 1936, pp. 23-25). Keynes assumed that either in an entrepreneurial economy or monetary economy, whether entrepreneurs increase the production quantities or start a new production procedure, entrepreneurs do not depend on the amount of products which are expected to deduct from their shares because entrepreneurs are interested in the amount of money, not the amount of productions that deduct to them at the end of production.According to Keynes,entrepreneurs are asked to employ more labor force when they use money in a certain period of time and increase the amount of production or when it is advantageous to start the production time (Keynes, 1979, pp. 82-83). Future price condition, which varies according to biding, changes the level of expected profit and effective demand and causes the variances in the volume of employment.

Effective demand is determined by consumption and investment expenditures. Since consumption expenditures depend on the level of current income determined by short-term expectations, they can be considered more stable in comparison to investment expenditures determined by long-term expectations. While there is a feedback mechanism that keeps short term expectations in a similar harmony with current supply and demand conditions, there is no such feedback mechanism for long term expectations (Butos & Koppl, 1997, p. 341). Keynes notes that this condition prevents long-term expectations from becoming stable and it causes to change long-term expectations suddenly (Keynes, 1936, p. 51). Hence, in a monetary economy, it is possible for investment volume and effective demand to change suddenly.

Investment volume affected by long-term expectation is a variable that determines employment, income level and profit rate. There is no logical certainty in Keynes' investment analysis because long-term expectations are originated in uncertain and unknown environments of the future. In this case, Keynes' analysis accepts a clear system. Therefore, in Keynesian system, the analysis of investment and effective demand, which determines the level of employment and income, can be said as an open system analysis (Keynes, 1936, pp. 168-169; Dow, 1997, p. 87).

Keynes states that the demand for labor and the employment level depend on the effective demand, which is determined by the expectation in the commodity market, the uncertain environment, and depending on how the expectation varies. According to Keynes, the level of level of employment is measured by prices and corresponds to each effective demand and in order to display how it changes according to the effective demand, employment function can be found (Keynes, 1936, p. 280). Since the level of employment, which depends on the level of effective demand, allows the entrepreneur to maximize profits, the marginal product value of the workforce is equal to price. So Keynes states that the price is equal to the marginal product of the workforce. However, in Keynesian system, the marginal productivity of the workforce that determines the level of employment is not the real wage but the effective demand (Tanyeri, 1998, p. 39).

Keynes mentions that there is an employment function, which shows that the level of employment changes according to the effective demand and there is an involuntary unemployment-due to the lack of effective demand in the economy of the country. Although there is an involuntary unemployment, there is no such market which provide the employment of those who are willing to work in the current wage level or eliminate the excessive demand at the more labor supply of current wage level. Because those who are unemployed do not have incomes, involuntary unemployment does not cause much demand in any market. Therefore, the more expected demand do not materialize in any market (Clover, 1969, pp. 287-294; Hahn, 1977, p. 182; Akyüz, 1977, p. 203).

According to Keynes, while a certain amount of labor is employed, the benefit of the price equals the marginal burden of this amount of employment. Keynes stated that this condition is invalid if there is an involuntary unemployment, in a monetary economy, it does not have the authority to determine the wage of the worker in real terms. In the case of involuntary unemployment, the desire of the worker to reduce the level of the monetary wage and to reduce the real wage level can often lead to a reduction of the effective demand, thereby it causes the decrease of the employment volume and also raising the real wage level. If the labor supply is assumed to be only a function of the real wage, the curve of labor supply must shift according to every alteration in price level (Keynes, 1936, p. 9; Okyar, 1948, p. 111). According to the alteration in effective demand, level of employment and income level change from one side and the price level change from the other side. The alteration in the price level leads to a shift in the labor supply function and this guides to an assumption that there is a total supply function of the labor force in a monetary economy.

Keynes acknowledges that despite the voluntary unemployment, labor force receives a wage equal to the marginal productivity in the volume of employment determined by the lack of effective demand and from this equality, he does not conclude that the labor force demand depends on real wage. Thus, in the Keynesian system,a supply function is not mentioned for labor force. For Keynes, claiming that a supply function for the labor force means that capital gains in the short term have not changed at all (Rotheim, 1998, p. 359). In fact, Keynes points to the fact that while the level of employment increases in the short term, there is a need to reduce real wages and increase profits (Keynes, 1936, p. 17; Wells, 1987, pp. 508-509). This indicates that the real proceeds of the production factor is dependent on the changes in the effective demand and the changes in the distribution affecting the effective demand (Rotheim, 1998, p. 360). This statement indicates that Keynes, who stated that wages are equal to marginal productivity of the workforce, is out of supply-demand analysis based on the marginal concepts from involuntary unemployment analysis and level of employment.

Related to labor force demand, Keynes noted that when other factors except labor force are given, the real wage, which is equal to the marginal productivity of the workforce, is reduced when the amount of labor employed is increased. However, analyses in the chapters of 19 and 20 in General Theory demonstrate that this does not mean that a demand function for labor force is accepted (Garegnani, 1978; Rotheim, 1998, p. 362). As for the labor supply, it can be argued that Keynes, who does not accept that the marginal cost of labour is equal to the real wage of the labor and there is a labor supply function, denies that the real wage equate the demanded amount of labor equal to supplied amount.

Keynes states that in the case of involuntary unemployment, even if the wage is stable, prices will increase and decreased yield will work because the resources are not homogeneous and are not perfect substitutes for each other (Keynes, 1936, p. 296). In the case of involuntary unemployment due to insufficient effective demand, there is a higher wage level and a lower profit rate depending on the level of real wages which is expected to be at full employment level. If effective demand increases due to changing expectations, it is anticipated that the real wage level will decrease and the profit rate will decrease as the level of employment and prices will increase. A certain level of expectation determines a marginal propensity of consumption-for a certain capital with the level of marginal activity and hence, the level of expenditures of both investment and consumption and the level of effective demand with a definite interest rate in economy (Keynes, 1936, pp. 248-249; Nevile & Rao, 1996, p. 193). The effective demand level determines the level of employment with income level and the real wage with profit rate. The level of employment and income level determined in this framework will not generally be at the level of full employment. In the case of involuntary unemployment, the expected rate of profit at the full employment level and the observation of the real wage level would be out of the question (Keynes, 1936, p. 203).

Conclusion

Throughout history, several economic thought has emerged with the aim of solving the problem of unemployment. Keynes, who sought solutions for economic stagnation and unemployment which became huge problems after the 1929 Economic Depression, defended the classical economists' mentality of free market is insecure and criticized the school of classical economists who cannot prevent the crisis with a recipe. In Keynesian perspective and mentality which redounded to economics by Keynes, the concrete reality of the period contributed a lot.

Employment analysis in Keynesian General Theory is an analysis based on the basis of the uncertainty of future and dependence to expectations in the entrepreneurial economy which is monetary. If the people, who has the monetary share and protect themselves from the uncertainty of future, which is dependent on vagueness and expectation, chose to keep their shares on their hands as cash, there would be the insufficiency of effective demand and involuntary unemployment in economy. Occurring an involuntary unemployment in economy make the analysis of classical economists, who made the resource allocation in the conditions of full employment, invalid.

Keynes centered the theory of effective demand instead of the law of markets of classical economists. Keynes explained his theory with the effect of effective demand and asserted that economy can balance itself not only in the level of constant full employment but also in the level of under employment level as well.

In the level of under employment in economy, however, Keynes defended that the state intervention must be held. According to Keynes, in order to solve the problem of unemployment, governments must definitely intervene in the market with different policies. The reason for this is that Keynes accepts that the private sectors are unbalanced and these imbalances can be eliminated by the intervention of the state (Güngör, 2013).

In the period when the economy is stagnant, the state intervention with the monetary and fiscal policies to the economy, total demand can be increased and the balance can be progressed at full employment level. According to Keynes, monetary policy is not a very effective tool because there are conditions that restrict the effectiveness of monetary policy. One of the conditions that restrict the monetary policy is the liquidity trap. According to the liquidity trap situation, the interest rate is not lowered below a certain rate even if the money supply increases too much. The other condition is thatthe sensitivity of the investments to the interest rate is low when the economy is particularly stagnant. Even if the money supply is increased and the interest rate is reduced to a certain level during these periods, the monetary policy will not be effective because the elasticity of interest rate will be low. On the contrary, with the implementation of the fiscal policy, the increased government expenditures will multiply the private sector expenditures and investmentsand increase the effective demand and employment by the multiplier effect.

References

Akyüz, Y. (1977). Sermaye Bölüşüm Büyüme. Ankara: SBF Yayını.

Bayraktar, C. (2012). Keynes ve refah devleti. Celal Bayar Üniversitesi Sosyal Bilimler Dergisi, 10 (2), 247-261.

Butos, W. N., & Koppl, R. G. (1997). The varieties of subjectivism: Keynes and Hayek on expectations. History of Political Economy, 29 (2), 327-360.

Büyükakın, T. (2007). Yeni keynesyen iktisat mı, yeni neo-klasik sentez mi?. Kocaeli Üniversitesi Sosyal Bilimler Enstitüsü Dergisi, (13), 22-36.

Clower, R. W. 1965. The Keynesian Counter Revolution: A Theoretical Appraisal. in R.W. Clower (ed.) Monetary Theory. Middlesex: Penguin.

Dow, S. C. (1997). Mainstream economic methodology. Cambrige Journal of Economics, 21(1), 73-93.

Garegnani, P. (1978). Notes on consumption, investment and effective demand: I. Cambridge Journal of Economics, 2(4), 335-353.

Hahn, F. (1977), "Keynesian Economics & General Equilibrium Theory: Reflections on Some Current Debates" in F. Hahn, Equilibrium and Macroeconomics. Cambridge: The MIT Press 1984.

Keynes, J. M. (1936). The General Theory of Employment Interest and Money. London: Macmillan 1961.

Keynes, J. M. (1979). The Collected Writings of John Maynard Keynes, vol XXIX. Edited by D. Moggridge London: Macmillan.

Nevile, J. W., & Rao, B. B. (1996). The use and abuse of aggregate demand and supply functions. The Manchester School, 64(2), 189-207.

Okyar, O. (1948). Neo-klasik teoriyle Keynes Teorisinin karşılaştırılması. İstanbul Üniversitesi İktisat Fakültesi Mecmuası, 10 (1-4), 1948-1949.

Özpınar, Ş., Demir, Ö., & Keskin, S. (2011). Türkiye'de istihdamın yapısının değerlendirilmesi (2000-2010). Sosyal ve Beşeri Bilimler Dergisi, 3(2), 133-142.

Patinkin, D. (1984). Anticipations of The General Theory?: And Other Essays on Keynes. University of Chicago Press.

Pekin, T. (2005). Makro Ekonomi. İzmir: Zeus Kitapevi.

Rotheim, R. J. (1998). Keynes and the marginalist theory of distribution. Journal of Post Keynesian Economics, 20(3), 355-388.

Saydam, İ. (2009). Yeni-Keynesçi Yaklaşımda Ücret Katılıkları. İstanbul Üniversitesi İktisat Fakültesi Mecmuası, 59(2), 239-262.

Snowdon, B., & Vane, H.R. (1997). Reflections on the Development of Modern Macroeconomics in (der. Snowdon, Brian & Vane, Howard R.), EdwarElgar,U.K.

Tanyeri, İ. (1998). Keynes'in istihdam ve ücret analizi. H.Ü. İktisadi ve İdari Bilimler Fakültesi Dergisi, 16(1-2), 29-46.

Uzay, N. (1996). Keynes'de ekonomik istikrarsızlığın bir kaynağı olarak belirsizlik ve bekleyişlerin yeri. Erciyes Üniversitesi Sosyal Bilimler Enstitüsü Dergisi, (7), 101-109.

Ülgener, S. F. (1966). Milli gelir istihdam ve iktisadi büyüme. 2nd edition, İstanbul, İ.Ü. İktisat Fakültesi Yayını.

Üstünel, B. (1966). Makro Ekonomi, Ankara, SBF.

Wood, J. C. (Ed.). (1994). John Maynard Keynes, Critical Assessment: Second Series. Psychology Press.

Wells, P. (1987). Keynes's employment function and the marginal productivity of labor. Journal of Post Keynesian Economics, 9(4), 507-515.

PART I.

CHAP 10.

AN ANALYSIS OF MULTICULTURALISM IN TURKEY: COMPARING THE DISADVANTAGED GROUPS AND REFUGEES*

*Dr. Sertan Akbaba***

1. Introduction

The research field of *identity*, *identification,* and *identity politics* is attracting increasing attention together with the rapid human mobility. This has opened up a debate regarding the structure of the community, which is emerging as "community as inquiry," (Tinder, 1980), "a community beyond traditions" (Morris, 1996), "community without unity," (Corlett, 1993), and "post-modernized communities" (Delanty, 2000). This debate has pushed scholars to question issues pertaining to identity. At this point, another rising debate is the way identity politics is tested by human rights on the one hand, and on the other, nationalism with notions of "multiplicity, plurality, fragmentation, and indeterminacy" (Best and Kellner, 1997, p.4). As Israel acknowledges;

National heritage is no longer seen as a sealed box of treasures to be passed on intact. Most individuals today, in civilized and democratic countries, internalize the identity they were born and bred into, but also see themselves free to prioritize other identities. Most people do not hold the nation above religion, humanity, morality, or justice (2011, p.67).

Social cohesion can be made possible through mutual identification resting on dialogue, which will lead to a boundary-free identification, which Goodman acknowledges as "transversal politics." This is about a "politics of dialogue across difference, in which different points of departure are acknowledged and mutually traversed to permit common understanding" (Goodman, 2002, p.14), which thus leads us to the multiculturalism inquiry. In the case of Turkey, the debate circles around how to build a consensus via improving rights (cultural, religious, group rights etc.) regarding multiple identifications. The questioning of identification in Turkey is

* This is a substantially revised version of a paper presented to the 'Conference on Rights in Diverse Societies: Gender, Migration and Ethnopolitics in the EU,' November 18-19, 2016, Queens University Belfast, Northern Ireland, United Kingdom.

** Kırşehir Ahi Evran University, Faculty of Economics and Administrative Sciences, Department of International Relations,E-mail: sertan.akbaba@ahievran.edu.tr

important among the public, and until the 1990s, such questioning was not only unwelcome but also unquestionable. However, at the beginning of the 2000s, the concept 'disadvantaged group' came to the fore; hence, it was debated extensively by both the public and academic realms. This topic, coupled with the large number of refugees entering Turkey (i.e., from Iraq and Syria) indicates that the concept will occupy the scholarly literature for quite some time. In Turkey, recent public debate has circled around a prominent discourse of "it is more beneficiary living in Turkey as a refugee [Syrian], rather than as a Turk." Naturally, there is a clash of identification among the public in this rhetoric, and more importantly, its presence is becoming multidimensional for the state as it seeks common ground in order to be inclusive when it comes to sub-state national groups, indigenous people, or migrants. Kymlicka puts forth that "national minorities and immigrants generally represent the main sources of multiculturalism" (1995a, p.10). This study draws a comparison between disadvantaged groups and refugees, thus leaving out the minorities, such as the Armenians, Jews, and Rum Orthodox Christians, who are the only groups officially recognized as minorities in Turkey. The comparison in this study rests between the disadvantaged and refugees.

The term disadvantage group[1] gathered awareness in Turkey in the 2000s and requires clarification. According to Caillods (1998), the term is attributed to "those who, because of their economic situation, gender, ethnic or linguistic origin, religion, or political status (refugee) have less chance of being integrated socially and economically" (p.10). Although the term refugee[2] ranks among the grouping of disadvantaged, the case of Turkey, as this study argues, differs. The term disadvantaged can be applied to different segments of a society whether this refers to the disabled, women, minorities, or a cultural group. However, this present study limits the margins only with the cultural groups, all of which are historical settlers in Turkey, but somehow face cultural injustice. To clear the picture, within the existing literature, a certain number of studies handle the "refugee" within the "disadvantaged group" context, and it is clear that refugees, due to their unclear status, face certain disadvantages. The aim is to analyze a clear-cut division between the two as the state-led institutions perceive as well as treat them with divergence. It is the goal of this study to understand the reason for this ambiguity of state-led initiatives. As more of the refugees become settlers, the more the debate becomes an issue of identity, thus leading to questioning as to whether citizenship should be inclusive or exclusive. However, currently, within the Turkish case, although we use the term refugee, these people are not exactly refugees; rather, they only have 'temporarily protection status,' or 'international protection.' The status of refugee is laid down in the U.N. Convention on the status of Refu-

1 The term "disadvantaged group" or "oppressed group" is attributed here to the Turkish citizens with Kurdish, Alawi, Roma, and Arab origin; each confronting different levels and scope of discrimination either by the state or by others in cultural, economic, or political realms.

2 Throughout the study, the term refugee is used to refer to the people who fled from the war in Syria and Iraq. It must be stated here that the people own an ambiguous status in Turkey with reference to "temporary protection status" for Syrians and International protection status for Iraqis under UNHCR. In a sociological understanding, the term "mülteci" in Turkish stands for refugee in English; as a result, this study considers the term refugee.

gees, while party to the Convention; Turkey still maintains its geographical limitation only to people originating from Europe. This causes an ambiguous status for people arriving in Turkey outside Europe.

In order to address the current situation in Turkey, the researcher has examined a theoretical discussion of "multiculturalism" and to what extent have recent initiatives correlated to a multiculturalist state policy in Turkey. This discussion was then analyzed by drawing a comparison between the disadvantaged groups and refugees. As the state-led initiatives towards the refugees are incredible, bringing to mind multiculturalist politics, the initiatives towards the disadvantaged groups remain the opposite. This paper discusses the amendments made thus far and the achieved improvements related to identifications and questions whether these fit into the definition of multiculturalism in terms of respect, recognition, and representation. The researcher notes that comparing the disadvantaged groups with that of the refugees has the potential to lack equivalency. As disadvantaged groups mainly focus on political and cultural rights, refugees are forced to focus more on socio-economic factors. However, the goal of the paper is to reveal how differently state-led institutions can position themselves upon reaching certain goals and in use of the process as a means to strengthen the already established mainstream identification, as in the Turkish case.

2. The Debate on Multiculturalism and Identity Reconstruction in Turkey

There is a wealth of literature on multiculturalism and scholars have written numerous works on the concept (See, Taylor, 1994; Kymlicka, 1995a; Walzer, 1997; Parekh, 2000). Starting from the mid-1990s, multiculturalism is currently occupying the political landscape in the western world. With the rising tide of migration, the West is deeply questioning the consequences, as well as the ways to cope with migrants having different ethnic, religious, and cultural backgrounds. Nowadays, especially in Europe, politicians are using the term "multiculturalism" or "droit a la difference" in a pejorative semantic, thus referring to a dangerous process which is evaluated as a disunifying ideology that fragments, divides and weakens the nation (Motyl, 2001). And even for some, the debate has moved on to a post-multicultural era (Kymlicka, 2012). Rapid human mobility and mass migrations are forcing the governments to seek solutions to integrate the newcomers—an unavoidable process—and a *sine qua non* to attain inner peace. At this point, it is important to stress that although today's nation-states are made up of multicultural societies, a few remain to legitimize and institutionalize multiculturalism as a state policy, while others either reject or foresee it as a goal to be achieved. Whether called a "community of equals," (Fiss, 1976), "politics of difference," (Young, 1990), or "politics of presence" (Phillips, 1995), a common understanding on multiculturalism refers to the policy that different cultures, such as minority groups, migrants, and even non-citizens such as permanent residents, etc., deserve to be both recognized and represented equally via granting equal rights guaranteed by the constitution as well as respected by other groups within the host nation. Multiculturalism here is acknowledged on the aspect of a political principle focusing on "... the distribution of rights and resources; reinforcing of ethnic pluralism, ethnic autonomy, and speaking out against acculturation and assimilation" (Heckmann, 1993, p.245). The deepening of democracy certainly requires the incorporation and participation of different groups living in a community. The ultimate aim is to equally embrace all the fragments in a community; otherwise, if any are left out, they will identify themselves less with the rest of the population and the state. The process for this inclusion is "dialogue," and identity is created dialogically," as Taylor (1994) emphasizes;

…my own identity doesn't mean that I work it out in isolation, but that I negotiate it through dialogue, partly overt, partly internal, with others. That is why the development of an ideal of inwardly generated identity gives a new importance to recognition. My own identity crucially depends on my dialogical relations with others (p.34).

As the abovementioned quote marks, the protection of the rights also requires the protection of culture, which only comes along with a democratic decision-making mechanism. Secondly, what is mostly ignored is that no culture exists in a vacuum since they are, to some means or other, related to each other. At the heart of this process lies respect. At this point, reciprocity and equality are necessary principles, while it also important to build trust and confidence via a "difference-blind fashion" (Taylor, 1994, p.43). As multiculturalism "cannot exist in a society where culturally different communities exist in isolation from each other or in competition under unequal conditions for the life-sustaining resources that the society produce" (Wilhelmina, 1976, pp.130-1). For instance, the debate of identification in Turkey starts with the questioning of a monolithic Turkish identification voiced by the Kurds; a rejection of the states' secular policies by the Islamists; and the criticism of the state exaggerating the Sunnite sect, forwarded by the Alawi, and currently appears to cover the demands of refugees with a divergence of backgrounds. It is clear that different expectations and claims need to be welcomed as well as satisfied by the Turkish state on an equal basis. However, the ongoing developments still give a projection of, first and foremost the institutionalization and legitimization of the dominant Turkish culture and identity. There is an attempt to define and position other belongings according to this legacy. The concept of reciprocity holds importance in this process. As Kuçuradi puts it, "being human; namely, being a species that possesses certain potentials and skills requires that the individuals of this species can behave toward each other in certain ways" (Kuçuradi, 2015, p.80-1). The more one feels that his or her own identity and belongings are respected, the more he or she will show sympathy and respect to other identities and cultures. As Kymlicka puts forth, "Members of certain groups would be incorporated into the political community, not only as individuals, but also through the group, and their rights would depend, in part, on their group membership" (2002, p.329). As people are embedded in culture, their self-understanding is encircled by it, and this requires others to respect it with the overarching aim of cohesion.

It is the substance of our identities, whether it be language, religious practices, or cultural rituals, which makes sense only if one can practice as well as be recognized by other group members in a positive light. Otherwise, attitudes such as belittlement, despise, ridicule, and humiliation will be revealed in society and consequently turn into xenophobia or nationalism as a shield for protection. At this point, Parekh (2000) warns that "no political doctrine or ideology has the capacity to represent or surround the whole people," and further stresses that "it is narrow and partial, representing only one vision and a particular culture" (p.338), which, in most cases, is "national identity." The establishment of the modern nation-state, and for its well-being, mostly relied on assimilationist policies, leaving little or no room for diversity. However, the dissolution of the Soviet Union, as well as the events in Yugoslavia throughout the 1990s, revealed that no state is able to avoid and ignore the diversity it contains. In addition, the more insistence placed on a unique national identification, the greater the likelihood drifting states into a deeper crisis. As Taylor puts it, "Misrecognition can inflict a grievous wound, saddling its victims with a crippling self-hatred" (Taylor, 1994, p.26), thus opening up space for ethnic or even secessionist movements. Hence, an emphasis should be placed on eliminating intolerance that fuels the masses' nationalistic feelings, and to prevent pejorative labeling such as "other," "opponent," "marginal," and "enemy." Looking at Turkish political life as it was in the 1950s, we see that many people were condemned for their opinions owing to their identities. Individual condemnations cause traumatic impacts not only on the condemned individuals but also on those who share the same opinions. Legitimizing different views and opinions with regards to identity will prevent social traumas. This is about survival, which Taylor names "authenticity," and emphasizes:

Being true to myself means being true to my own originality, which is something only I can articulate and discover. In articulating it, I am also defining myself. I am realizing a potentiality that is properly my own. This is the background understanding to the modern ideal of authenticity, and to the goals of self-fulfillment and self-realization in which the ideal is usually couched (1994, p. 31).

People, if given equality in social, political, and economic life, value the community they live in as well as bind to the state. For Parekh (2000), this is about "a shared commitment to the political community; the sharing of a mutual commitment around a common interest and affection" (p. 341). The key point here rests on the treatment of equality, albeit not with imposing uniformity, where the state-led institutions legitimize the dominant culture and leave space for other cultures only if accepted within a subordinate position. This posits the process in a plurality in the fashion of different cultures, as opposed to "multiculturalism." Multiculturalism implies multiple cultures and treats them with equality, while the plurality of cultures, although accepting the existence of different cultures, adheres importance to a dominant one.

And, in fact, the multiplicity of cultures are relocated according to the dominant one. The ultimate aim of this process is to stress and reveal the diversity of identifications and move on to more inclusive compromises. However, its difference apart from multiculturalism is that it sanctifies the dominant culture, in this case, Turkishness.

Under the rule of Justice and Development Party (AKP), although performing a great sum of legislation in the realm of human rights, Turkey still fails to carry and practice these improvements in social and cultural life, with a major cause being a lack of public participation. In the heart of this process, concurrently, another issue has come to the fore in social and political life; namely, the refugees. The diversification in social and political life in Turkey is increasing dramatically. On the one hand, the state is experiencing how to integrate citizens with different identities, classified as disadvantaged groups in this work, and on the other, the recently-arrived refugees from Syria and Iraq. In Turkey, where customs, traditions, and past practices are so potent in the community, no matter how many legal improvements or modifications are in progress, the government cannot attract the attention and participation of the public without the inclusion of representations of civil society, which is an important aspect of multiculturalism.

Further, although an acceptance of a divergence of cultures is seen in the political atmosphere as a goal to be achieved, Turkey lacks a clear approach in recognizing its diversified expectations. From certain counter reactions where, aside from multiculturalism, a certain strata of society still acknowledge pluralism as an obstacle of national unification. This debate is currently more salient with regard to the refugee issue, and the state has fulfilled certain requirements in opening up room for diversity within the human rights context. The maturing of democracy (peace settlement process) has an undeniable role in Turkey's steps towards meeting the human rights accords criteria for strengthening democratic principles, which is apparently not limited with universal suffrage, but also the right to freedom of religion, education in different languages, etc.

In existing multiculturalist literature, there are mainly three models of political integration: the proceduralist, civic assimilationist, and millet models.[3] According to the civic assimilationist approach, which this researcher argues Turkey as a good example in the making, foresees uniformity in the public realm, and diversity in privacy. This type of recognition includes the public presence of all as valued members making up the community. Besides politics, institutions, authority, and practices, there must be an agreement on a shared public culture surrounding all the segments of the community. However, this shared culture must not cover all aspects of life. In this model, the aim of settling harmony is by creating space for different cultures to flourish, and in this way, contribute to "general, abstract, and voluntary forms of association" (Hoover, 2003, p.25). The case in Turkey is similar, although diversity is accepted in private, it

3 For a detailed analysis of these models, See, Bhikhu Parekh, *Rethinking Multiculturalism, Cultural Diversity and Political Theory*, London: Macmillan Press, 2000.

still lacks presence in public. The practicing (religion, language, cultural rituals, etc.) of one's identity here is the point, as is the level of respect and tolerance, because granting equal rights does not mean granting identical rights for people belonging to different groups. Hence, the divergence of demands rests first and foremost on equality.

The question at this point is, have the improvements made so far been enough to say that the Turkish community is heading towards multiculturalism, or is this an issue closer to the politics of pluralism? Although many improvements have been fulfilled, the practicing of these improvements seems not to have fulfilled all of the expectations in both social and political life. The diversification in social and political life in Turkey is increasing dramatically. And the state is, on one hand, experiencing how to integrate citizens with different backgrounds—classified here as disadvantaged groups—and, on the other hand, the refugees with an alarming number, are forcing the country fetching for the compromise of inclusion. The debate circles around the questioning of how to make certain rights of the disadvantaged more visible, as well as how to tackle the recently-arriving newcomers within the Turkish society. The study continues to debate this in the next section via a comparison of the disadvantaged groups and refugees.

3. A Comparison of the Disadvantaged Groups and Refugees

As Parekh puts it, "we' cannot integrate "them," so long as 'we' remain 'we,' 'we' must be loosened up to create a new common space in which "they" can be accommodated and become part of a newly reconstituted "we" (2000, p.204). This is a very useful and clear summary of what multiculturalism needs to be. Starting from the establishment of the Turkish Republic, the debate of nationalism and national identification circles around the domination of Turkish identity and Sunnite Islam, subordinating any identification and belonging apart from it. However, since the late 1990s, the country has left behind its mono-cultural policy by reopening a debate on identity and human rights in Turkey. As the current democracy deepens, public attempts to restore peace among different ethnic and cultural groups have become apparent. It is observed that the state has abandoned its past actions of injustice, and this has become more visible with the countries that commit to carrying out reforms in order to meet democratic credentials and international standards. Certain amendments are fulfilled in the Turkish constitution to provide constitutional assurance for the newly introduced regulations.[4] These developments even sparked discussions for a new constitution, which was welcomed by different segments in the Turkish society. Constitutional amendments were made in 2001, 2004, and 2010. The ultimate aim of these improvements was to create a stable and peaceful atmosphere among what could be considered a culturally- and politically-divided community in Turkey. Although the state

4 Turkey entered a reform movement in the early 2000s, during which time it introduced a great sum of amendments to its legislation and constitution in order to improve its human rights records. These include, but are not limited to, the reformulation of Article 13—the constitution on freedom of thought, and Article 23, which concerns freedom of travel, and lifting the ban on broadcasting in different languages, as written in Article 28, etc.

has legitimized certain cultural practices and rituals of groups via amendments, there are still certain inabilities; namely, the recognition of these differences on an equal basis. It is clear that improvements made so far are remarkable, and a huge step in accepting diversity and plurality of identifications, but are still tied to the pre-condition of uniformity which harms the equality principle. At this point, the question is at what level and context have these become visible, or in other words, have the improvements made thus far been a re-blessing of the dominant cultural identification. For instance, during the democratization process (currently frozen), Turkey introduced some religious and cultural rights to the Turkish citizens with Kurdish, Alawi, and Arab origin. However, more than the rights, the process of bargaining was mostly debated among the public. As improvements with regards to broadening rights and freedoms were tied to some pre-conditions. As a result, the process came out to be "politics of identity" rather than "politics of recognition" in which the parties involved accused each other of fraud. This brings the process somewhere close to the civic assimilationist model.

In addition to the endeavors within the Turkish community in widening the democratic space, in addition to the ongoing debates on the reconstruction of the national subject, the government currently confronts the refugee crisis having re-opened the issue of identification from a different angle. Because of the war in Syria, a vast amount of refugees have spread across the continent; in this case, mostly affecting Turkey. The Turkish government still have a lot to do in the realm of consolidating inner peace as the country's total refugee population in 2018 totals 3,562,523 refugees (Minister of Interior Directorate General of Migration Management, 2018). In attempting to solve issues pertaining to identity while hosting millions of people from diverse cultural and ethnic backgrounds, the government is facing a deadlock in its attempts to handle the issue by reinforcing the national identity. To illustrate, talking about identity primarily means the "perception of the self," which regards particularistic forms of identification, and secondly, its "relation to authority." Here, the comparison of the disadvantaged and refugees is constructed on the latter. The public authority in Turkey has shown an ambivalent policy towards these two; therefore, it is a very special and controversial process, as on one hand, public authority is giving extreme importance to the refugee issue, helping and supporting millions of people to live their lives as Syrians, Iraqis, or Afghans in Turkey, and even debating whether they should acquire citizenship. On the other hand, there is an additional ongoing debate on how to accommodate different identities under Turkish citizenship.

When the Syrian refugees started to arrive in Turkey in 2011, the Turkish government declared its "open door policy" in helping anyone who had suffered in the war. Then, in 2013, the government also introduced its democratization package to fulfill certain claims arising from different segments of the society. Overlapping with the democratization process, the Turkish government began amending its legislation in order to fulfill its responsibilities as a host state for the refugees. Until 2013, the Syrians were named as "guests" and considered to be temporary. However, over time, the Syrian refugees appeared to be permanent. The Turkish government was working on its refugee legislation, in which it had committed to adapt to EU law back in 2005. In 2013, the "Law on Foreigners and International Protection" (2013) was enacted, followed by the "Act of Temporary Protection Status" in 2014. All refugees were recorded via biometric IDs and were granted rights such as health, education, employment, etc. (Act of Temporary Protection Status, 2014). It is surprising to see that the government is very eager to encourage the Syrian refugees to settle in Turkey, and moreover, the social acceptance of them remains very high, though this has not come without criticism. However, when compared with the continually divided cultural and political landscape in the Turkish society, there is a lack of tolerance towards the disadvantaged groups despite many years of endeavor as compared to the over-prioritized refugees. The positioning of the state upon affirmative action towards the refugees is not be disqualified, but clearly makes one think of a dualist conceptualization.

The Turkish society and the state is very keen on helping these people to feel comfortable both in economic and social terms. The importance of religious identification requires mentioning, as too does the similarity of religious belief; namely, Sunnite Islam, which has come to play an important role for the Turkish society and state in welcoming the refugees, which also serves an important aspect for strengthening the dominant identification in the Turkish society. At this point, it is remarkable to investigate how come the Turkish society and the state is very enthusiastic on integrating the refugees within the Turkish society, while at certain times ignoring the diversity within its own establishment.

The problem itself is not the diversity but rather the constructive nature of the division, which is not innate but instead constructed upon false factors. The legal improvements done so far do not meet the expectations, which is a result of the national narrative still occupying the political and cultural landscape. That is why the study proceeds to a comparison of the disadvantaged groups with the newly-arrived refugees. The aim is to lay down the illusion of this national narrative. Within the context of refugees, it is clear how the national narrative can become inclusive in welcoming the recent "other" while ignoring the pre-existing one at certain levels. It is interesting to compare the perception of how the state and the rest of the society accept the "other" (refugees) within the host state context; however, they continue stereotyping the "other" (disadvantaged group) within the home state, as if a kind of narrative is formulated within the existing one. For instance, within the context of the homeland, the disadvantaged become, at certain times and conditions, a threat in which the homeland must be secured from the inside. However, within the context of refugee, the homeland becomes a geography of hospitality in welcoming the helpless. For the former, the policy domain is motivated by rational concerns, whereas for the latter it suddenly becomes emotional. Table 1 below illustrates the differing perceptions between the disadvantaged groups and the refugees. The study proceeds by analyzing these main differences to understand how they are located in the social and political debate.

Table 1. A Comparison of the Disadvantaged Groups and Refugees

	Disadvantaged	**Refugee**
Attachment	Home State	Host State
Status	Settler (Citizen)	New-Comer (Ambiguous)
Organized Behavior	Pro-activity	Inactivity
Diversity	Artificially Produced	Real Social Division
Rights Claim Acceptance	With Reservation	Upon Good Will
Treatment	Human Rights	Humanitarian Aid/Assistance

To illustrate further, the above table illustrates the main differences between the disadvantaged groups and the newly-arrived refugees upon state perception. The first difference stems from the status these groups own. There is no example of a nation that has been purified via a single ethnic and cultural background. It is clear that today's nation-states are highly diverse. The point is how the state responds to these divergences. In this case, there are the citizens—the settlers—and the non-citizens—the newcomers, who have an unclear status. A clear distinction lies between the citizens and, on the other hand, what might become in near future called the *denizens.*[5] Although the status of these groups remains different for now, the government is preparing a process to welcome the refugees as denizens or future citizens of the Republic. As President Erdoğan emphasizes in reference to the Syrian refugees, "…because there are very well trained people in them, engineers, lawyers, doctors, etc. Let's take advantage of them. Instead of becoming a fugitive and working illegally, we would like them to work as an individual of this nation" (Public Speech, 06.01.2017). This reflects how the issue of citizenship will occupy the political agenda for quite some time, particularly the different models of membership. Either side welcomes the political stance of the government announced by the President. The will to integrate these people into the host-society is a sine qua non for the creation of inner peace, but only if applied to the rest of the community in fulfilling the divergence of expectations. Otherwise, the process will result as a means to strengthen the national identity around cultural pluralism, not multiculturalism. The difference, at some point, becomes a privilege that the refugees are given, not solely granting of certain rights, but as if the refugees are entitled to equal treatment.

Another aspect is that the organizational behavior between these two is important to tackle. The former includes the request of rights lead by NGOs to practice cultural, lingual, and religious rituals, while the latter mostly concentrates on pleads for basic needs. Disadvantaged groups, with the support of think tanks, journalists, and representatives of civil society, maintain

5 The term *denizen* refers to a new classification. Hammar defines it as "foreigners who are long-term residents and who possess substantial rights and privileges require a new membership model. A new status group has emerged, and members of this status group are not regular and plain foreign citizens of the receiving country. They are a group of alien residents that we call denizens." See Tomas Hammar (2016) *Democracy and the Nation State: Aliens, Denizens, and Citizens in a World of International Migration,* London: Routledge, p. 13.

a proactive agenda to cooperate with the government institutions in shaping policies, or at least making their rights claims more salient and transparent across the community. However, the refugees, in remaining inactive and silent, capture even more attention and participation from both the government and the members of the society. When compared to the refugees, it is surprising that the Turkish society is so concerned with the refugee situation. In particular, the importance placed on the issue in NGOs' campaign agendas is a case that is constantly debated in a wide range of fields. For instance, to mention a few of the campaigns: Syrian Refugees Program, Support to Life, Help for Yazidi Refugees, are all contributing to the well-being of the Refugees in the fields of education, health, shelter, and food with great endeavor. In the case of refugees, there is a well-coordinated participation of NGOs via humanitarian aid and assistance. However, when it comes to the disadvantaged groups, the developments still lack clear progress in the realm of redistribution and recognition due to the failure of integrating the NGOs within this process.

The state has also introduced new institutions, such as the Directorate General for Migration (Ministry of Interior) in 2013 or Department of Migration and Emergency Education in 2016 (Ministry of National Education). Beginning in 2013, these institutions both coordinate and develop projects for the well-being of the refugees both in terms of legislation and practice. As a result, a total of 150,000 Syrian children are placed in either official or private schools with a Turkish curriculum, and 300,000 in temporary education centers with a Syrian curriculum upon family choice (Ministry of National Education, 2016). It can be seen that the government has initiated certain programs for the children of the refugees to receive education in their mother tongue. The state evaluates this within the humanitarian aid realm and puts forth this as a basic human need; a principle which one has the right to receive. However, on the other hand, the disadvantaged groups' education, which includes the training of local languages, is treated in the realm of identification within a subordinate position. As a result, bestowing honor on certain groups that require basic needs as human beings, but not to others, which requires, in Taylor's words, "as the ideal of authenticity" (Taylor, 1994, p.31) to let, to respect, and to recognize one to discover who he or she is.

The government has clearly adhered importance to the Turkish mother tongue and its use within the education system. For instance, "The Law of Education in Foreign Language," which enables education in different languages and dialects, was an important step towards acceptance in 2014 as the law on Foreign Language Education and Teaching and Learning of Different Languages and Dialects of Turkish Citizens' (T.C. Resmi Gazete, No: 24841) was welcomed by different segments of the society. This improvement will also open up room for the refugees as well. The importance of mother language learning is undeniable for identification, for one to realize his or her past, present, as well as future. The importance of language on the individual's identity and culture comes from its mission as a carrier. The most important part of improving ethnic and cultural pluralism is of securing plural languages. The increase in multilingual educational programs in Europe was echoed in Turkey, seeking integration with the continent, and this resulted in the regulation mentioned above; albeit with a lack of stressing the plurality. As Maalouf writes, "Language is the axis of cultural identity whereas pluralism of language is the axis of all pluralities" (2016, p.19). The goal of these legislative actions is to open up space to national equality, enabling all identities, without discrimination, to take place in political and social areas, and as a result, ensure a strong ground on which all identities are granted legitimacy.

Sassatelli argues "No story is the story of everyone" (2012, p.62). National narratives are produced and reproduced; however, these stories do not always cover entire segments of the national community. The storytellers or meaning makers, most of whom are the political elites, use a language of identity, turning every issue into a message of identity. As a result, they reduce the number of people agreeing on the given message. This rhetoric opens up divisions among the groups within the national community. These are all artificially-produced divisions—the differences are not innate, but are rather produced and re-produced for certain political interests. These divisions are not based on immutable factors; rather, they are agreed through bargaining rather than negotiating. This brings the issue to the conditional acceptance. For instance, it is worth mentioning that what had been called in the beginning as a "democratization process" or "democratization package" turned out to be what was dubbed a "Kurdish outreach" or "Southeast package." This denotation itself refers to the way the society approaches issues of identity. The artificial perception of "us and them" is a reality to be overcome in social, before political, terms. As Maalouf argues, "It is our own view that often squeezes others into their narrowest belongings, and again, it is our own view that would set them free" (2016, p.24). The concepts of acceptance and recognition are tricky words when dealt with in multiculturalism. What is meant by acceptance? What does recognition signify? Acceptance towards the disadvantaged groups seems to be settled in the Turkish community. However, to come into effect, the acceptance must be transformed into a recognition via granting rights, as well as giving the ability to practice them in social and political life. In the words of Taylor (1994), "an identical basket of rights and immunities" (p.38). The situation occurs with regards to the disadvantaged. In the case of the disadvantaged groups, all of whom are citizens of the republic, they regularly face stigma at certain times and places—whether it be because of their names, their lack of ability to speak the Turkish language (with a different accent), folklore, or skin color, etc. As Maalouf stated above, "We squeeze them into the narrowest belongings." At this point, it is not about who they are or what their belongings are, but how we start to define them upon our ethical and moral codes. This is where prejudice comes into play. Conversely, the refugees, in light of the abovementioned examples, are, first and foremost, accepted as the way they are and are equipped with certain rights to live their lives as human beings, and are not to be associated by their identities. For instance, the Minister of the Interior emphasizes the state's duty as, "There is a great fire in the east, and unfortunately, there is a great insensitivity in the west.

Turkey is in the middle of this human drama. Our responsibility is not only against our own people, but to the whole of humanity" (Süleyman Soylu, Public Speech, 17.02. 2017). This quote reflects how the government approaches the refugee issue via humanity from a position that is isolated from the patterns of identification.

The issue of human rights and humanitarian aid comes into play when the government makes and shapes its policies in favor of the rights-holders. On the one hand, there are those who need immediate assistance and protection, and as a result, have to live their basic rights, such as right to live, right to health, right to education, right to work, etc.; and on the other hand, certain groups claiming lingual, cultural, or religious rights to be recognized by the government. The former is handled via humanitarian assistance and the latter via human rights. However, the dilemma occurs when the promotion of the rights to the refugees are made at the expense of the disadvantaged. The issue is handled via humanitarian assistance when dealing with the refugees, no matter if they are Syrian, Iraqi, or Sudanese, to name but a few nationalities. The policy pursued thus becomes free from identification and is purified from all belongings. In contrast, in the context of the disadvantaged, the developments made in the realm of human rights are overridden by identity politics. For instance, the already-existing groups, such as the Alawi, claim their right to religion is still uncertain. At this point, the European Court of Human Rights' (ECHR) ruling is worth remembering. In 2016, the court ruled against a case opened in 2010 that the Alawi peoples' right to freedom of religion were violated according to Article 14 of the European Convention on Human Rights (ECHR) and that a discrimination of religious freedom and a difference in treatment between members of the Alawi faith and citizens adhering to majority branch of Islam has occurred. (İzzettin Doğan and Others v. Turkey, [GC], no. 62649/10, 2016). Due to their sectarian affiliation, these people should not be differentiated. Therefore, a debate must take place where a human rights clause should prevent the questioning of identity. Here, the inconsistency stems from the diversity of handling rights—the former motivated by moral rights, while the latter is mostly legal. It is the moral codes that dominate the humanitarian aid and assistance in Turkey, and, as a result, it is as if the refugees have gained some kind of immunity when compared with the disadvantaged. This leads to a dualism where the rights of disadvantaged are accepted to a certain level, and only become acceptable when the diversity is limited under the dominance of a meta-culture and the rights granted to the refugees only have a multicultural appearance, but not multiculturalism itself.

For instance, the amendment of the prohibition of expressions that insult and harm the honor and dignity of a person was a good starting point. This step was important as it creates space for diversity and plurality, which starts with respecting others' thoughts, feelings, and expectations, all of which are guaranteed under legislation. The ban of expressions that denigrate or violate human honor and dignity is very important. The regulation was aimed to prevent denigrations targeted at identities, and it was an important step taken toward protecting individuals from assaults due to their identities. With this, the individual identities are taken under the legal protection and it is emphasized that the government stands at an equal distance to everybody. Actually, the goal of human rights is to protect the individual from all kinds of risks and dangers caused by the members of the society or the government policies. Further, mutual respect across communities also has a valuable significance. And, more importantly, enabling the right to participate in the benefit and decision-making of the community. For instance, a speech made by Erdoğan back in 2015 was very important and a good starting point. He emphasized the importance of not labeling anyone due to their belongings and argued that "there is no longer a Kurdish problem in Turkey, but problems of my Kurdish brothers … just like Abkhazian, Bosnians, or Albanians have" (Recep Tayyip Erdoğan, 23.03.2015). This announcement is important to not fragmenting the community via identifications or groupings and to move the debate towards a human rights-based problem-solving process.

It is observed that legal improvements regarding the freedom of expression and organization and the right to peaceful meeting have all been amended within Turkish law. At this point, it should be noted that the freedom of expression and thought takes a significant place. In a democratized society, people express themselves freely, and the question of "What is identity" is handled with the query of "Who am I?" Individuals may really exist in a context in which they freely express their own identities, and hence the fact that Turkish people are able to express their ethnic, cultural, and religious identities openly and discuss the notions of them. However, the process has not worked sufficiently, judging by the general public opinion, and this is causing failure in attaining the goal. The reason is, as mentioned above in reference to Taylor (1994), that the legislative consensus remains short if not reflected in the growth of social consciousness, which is crucial is to form a common perspective of reconciliation. Undoubtedly, no legal consensus, even a constitutional one, can directly remove social fears, prejudices, and hatreds and can solely bring about the desired social order. What is needed is to prepare the individuals for an environment in which they are capable to reflect their personalities across different belongings. This is a dual process. At this point, Turkey is focusing solely on achieving political cohesion without touching the grassroots, and thus falls short of establishing social cohesion. The way to handle this process is to work with the civil society on what has been done and what is to be done in eliminating the injustice among the groups. However, the civil society did not pay enough attention to the democratization process as compared to that of the refugees.

The reason for this problem is the lack of integrating the civil society within the process. This is why many of the enacted regulations do not create a "public reason." Achieving a social consensus essentially demands the establishment of public reason. At the core of the current public discussions in Turkey is the will for social equality based on good intention. This is also true for the discussions on the need for a new constitution since the sides stay far from the sense of reconciliation and depart from the biased point of defining the identity of others.

4. Conclusion

This study aimed to analyze the multiculturalist phenomenon in the case of Turkey. Although it is clear that a transformation is occurring within the Turkish community, it is important to emphasize that, in the light of the legal improvements accomplished thus far, Turkey stands away from becoming multicultural and its attempts to reach universal values of equality still lack depth. Hence, Turkey is trying to adapt its legislation to that of a more universal reference; however, this political goal does not run in parallel with the Turkish society which still remains local. Apart from the ongoing debates across the community with reference to identification; recently, the refugee issue has also come to the fore. At this point, an important element of the general cultural code—hospitality—comes forward. This has caused the state to relocate its policies within a dualist conceptualization. Both the Turkish state and the community have embraced the refugee crisis owing to the nation's hospitality and humanity in lending a helping hand towards the Syrians; however, for the disadvantaged, the result is the opposite. In Turkey, a strong moral perception has occupied the refugee crisis as if a public spirit has taken up this duty with great sincerity. However, a country suffering from many years of internal disagreements still lacks clear signs of social consensus, where the disadvantaged lay in the heart of this situation. When compared with the issue of refugees, this researcher concludes that a great amount of work is conducted at state-level towards the refugees; however, even these positive endeavors are steps in strengthening the dominant culture, not multiculturalism. The state-led approaches on the refugee issue open up a differentiation between the disadvantaged and refugee; hence, such approaches are becoming a means to serve the dominant culture which the state adheres and reinforces. As a result, the improvements made so far still stand far away from multiculturalism and are only emphasized with a pluralist intention to be secured and dominated by state-led institutions and enhanced by a superior identity.

References

Best, S., & Kellner, D. (1997). *The Postmodern Turn*. NY: The Guilford Press.

Caillods, F. (1998). Education Strategies for Disadvantaged Groups. UNESCO Working

Documents in the Series IIEP Contributions, No.31. [Online] Available: http://unesdoc.unesco.org/images/0011/001142/114204e.pdf [Accessed 02.06.2016]

Corlett, W. (1993). *Community without Unity A Politics of Derridian Extravagance*. USA: Duke University Press.

Delanty, G. (2000). *Modernity and Postmodernity, Knowledge Power and the Self*. London, UK: Sage Publications.

European Court of Human Rights. (2016). Reports of Judgements and Decisions (Case): İzzettin Doğan and Others v. Turkey [GC]. no.62649/10, [Online] Available: https://hudoc.echr.coe.int/eng#{"itemid":["002-11135"]} [Accessed 15.08.2017]

Fiss, O. (1976). Groups and the Equal Protection Clause- *Philosophy and Public Affairs*, 5 (2), pp.107-177.

Goodman, J. (2002). Nationalism and Globalization: Social Movement Responses. *The International Scope Review*, 4(8), pp. 1-17.

Hammar, T. (2016). *Democracy and the Nation State: Aliens, Denizens, and Citizens in a World of International Migration.* London: Routledge.

Heckmann, F. (1993). Multiculturalism Defined Seven Ways. *The Social Contract*

[Online]. Available: http://www.unz.org/Pub/SocialContract-1993q4-00245 [Accessed 08.08.2015]

Hoover, J. (2003). A Propaedeutic to the Theorizing of Cultural Pluralism. In Cris E. Toffolo (Ed.), *Cultural Pluralism*. Albany, NY: State University of New York Press.

Human Rights Watch. (2010). Protestoyu Terör Suçu Saymak. Kasım [Online]. Available: https://www.hrw.org/sites/default/files/reports/turkey1110tuwebwcover.pdf [Accessed 11.10.2015].

Israel, H.B. (2011). The Nation-State: Durability through Change. *International Journal of Politics, Culture, and Society*, 24, pp.65-74.

Kuçuradi, İ. (2015). *The Idea and the Documents of Human Rights*. Ankara: Türkiye Felsefe Kurumu Yayınları.

Kymlicka, W. (1995a). *Multicultural Citizenship: A Liberal Theory of Minority Rights*. Oxford, UK: Oxford University Press.

Kymlicka, W. (2012). Multiculturalism: Success, Failure and the Future, Migration Policy Institute, Europe. [Online] Available: http://www.migrationpolicy.org/sites/default/files/publications/TCM-Multiculturalism-Web.pdf [Accessed 10.07.2015]

Maalouf, A. (2016). *Ölümcül Kimlikler*. (Trs. Aysel Bora). İstanbul: Yapı Kredi Yayınları.

Malik, K. (2005). The Failure of Multiculturalism: Community Versus Society in Europe.

Foreign Affairs. March/April [Online]. Available: https://www.foreignaffairs.com/articles/western-europe/failure-multiculturalism [Accessed 21.05.2016]

Minister of Interior Directorate General of Migration Management. (2018). "Yıllara Göre Geçici Koruma Kapsamındaki Suriyeliler" [Online]. Available: http://www.goc.gov.tr/icerik3/gecici-koruma_363_378_4713 [Accessed 30.06.2018]

Morris, P. (1996). *Community beyond traditions*. In P. Heelas, S. Lash, and P. Morris (Ed.),

Decentralization: Critical reflections on authority and identity at a time of uncertainty. London, UK: Blackwell.

Motly, A. J. (2001). *Encyclopedia of Nationalism* (Vol. 2). NY: Academic Press. In Pantoja

Wilhelmina Perry and Barbara Blourock (1976), Towards the Development of Theory: Cultural Pluralism Redefined, *The Journal of Sociology and Social Welfare*, 4(1), pp. 124-146.

Parekh, B. (2000). *Rethinking Multiculturalism. Cultural Diversity and Political Theory.* London: Macmillan Press.

Philips, A. (1995). *The Politics of Presence: Issues in Democracy and Group Representation*. Oxford: Oxford University Press.

Rawls, J. (2007). *Siyasal Liberalizm* (trs. Mehmet Fevzi Bilgin). İstanbul: İstanbul Bilgi Üniversitesi Yayınları.

Recep Tayyip Erdoğan, Public Speech, 23.03.2015 [Online] Available: https://www.tccb.gov.tr/haberler/410/29843/kurt-sorunu-yoktur-kurt-kardeslerimin-sorunlari-vardir.html [Accessed 20.08.2017]

Sassatelli, Monica. (2012). Has Europe lost the Plot?. In *Remappings: The Making of European Narratives*. Odile Chenal and Bas Snelders (eds.). Amsterdam, NL: European Cultural Foundation, Amsterdam, pp.55-64.

Taylor, C. (1994). The Politics of Recognition. In *Multiculturalism: Examining the Politics of Recognition*. (ed.) Amy Gutmann. Princeton: Princeton University Press.

Tinder, G. E. (1980). *Community: Reflections on a Tragic Ideal*. Louisiana: Louisiana State University Press.

T.C. Resmi Gazete, Çeşitli Kanunlarda Değişiklik Yapılmasına Dair Kanun. (2002). Kanun 4771 No 24841 [Online] Available: http://www.resmigazete.gov.tr/main.aspx?home=http://www.resmigazete.gov.tr/eskiler/2002/08/20020809.htm&main=http://www.resmigazete.gov.tr/eskiler/2002/08/20020809.htm [Accessed 20.06.2015]

T.C. Avrupa Birliği Bakanlığı, "Türkiye İlerleme Raporu 2015". [Online] Available: http://www.ab.gov.tr/files /000 files/2015/11/2015_turkiye_raporu.pdf [Accessed 05.12.2016]

UNHCR's mandate Global Appeal 2016-17 (October 2015). [Online] Available: http://www.unhcr.org/564da0e5a.html [Accessed 15.11.2016]

Walzer, M. (1997*). On Toleration*. New Haven: Yale University Press.

Young, I. M. (1990). *Justice and the Politics of Difference*. Princeton, N.J.: Princeton University Press.

PART II

GLOBALIZATION

PART II.

CHAP 1.

A CONTEMPORARY ECONOMIC ISSUE: GLOBAL IMBALANCES*

*Deniz ABUKAN***

Introduction

The phenomenon of relatively vast and sustainable current account deficits or surpluses is referred as global imbalances in economics. Especially beginning from 2000s there has been a vast literature and discussions on the matter. In fact there have been periods throughout the history of capitalist system when external imbalances had gained sustainability and reached relatively high levels. But the imbalances of today dramatically differ in both size and in the accumulation centre of the net savings.

Capital movements and reserve changes reach extremely high levels within the episodes of vast global imbalances. On the other hand, these flow transactions in the balance of payments can be monitored as their stock values in the international investment position. In this context sustainable high current account imbalances would result in substantial levels of net liabilities. That would create a threat against the national economy for the deficit countries and could become a global issue depending upon the importance of the country in the world economy. In countries with high and sustainable surpluses, there would be vast amount of reserve accumulation.

In the study a historical and theoretical approach is used to analyze the development of global imbalances that reached unprecedented levels in mid 2000s. In this context first, the increasing trend in current account deficits of the US, the leading actor in emergence of global imbalances, and in return the vast current account surpluses of surplus countries and regions are analyzed for the period after 1980. Second, the orthodox theoretical debates on the origins of global imbalances are reviewed. Third, by using a historical approach, the instability and vulnerability of today's global economy is reconsidered with the turning points of last thirty years. And recent global imbalances are analyzed in the light of heterodox theories.

---

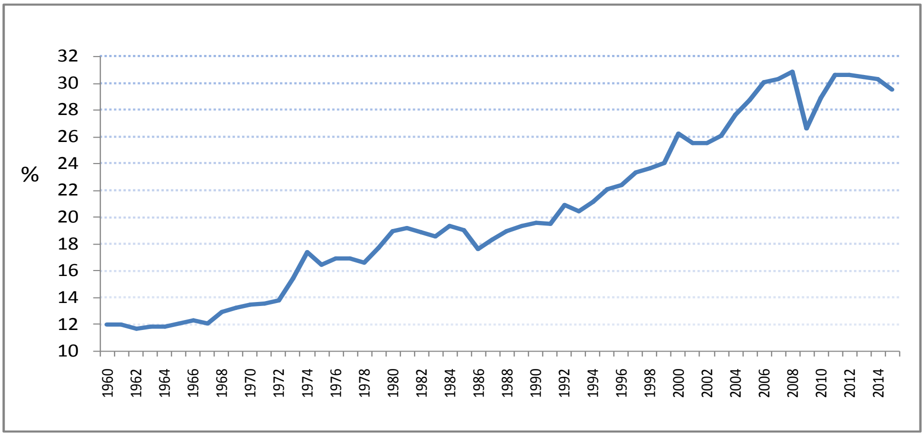
* The paper is derived from Phd thesis of the author.

** Asst. Prof. Ahi Evran University, Faculty of Economics and Administrative Sciences, Department of Public Finance denizabukan@ahievran.edu.tr.

An Overview of Global Imbalances: 1980-2016

In the neoliberal era after 1980, with the political and economic paradigm shift, constraints on trade and capital flows have been removed; and financial markets have been liberalized with intensive deregulations. The rapid integration of financial markets that has resulted from the developments in information technologies and greater diversification in financial instruments enabled access to global financial facilities (Bracke et. al., 2010, p. 1142). Hence, the volumes of global trade and capital flows reached to high levels. Trade globalization is not a new phenomenon but as shown in the figure 1 below the acceleration of it and the new characteristics that cause current account imbalances pertain to neoliberal globalization era.

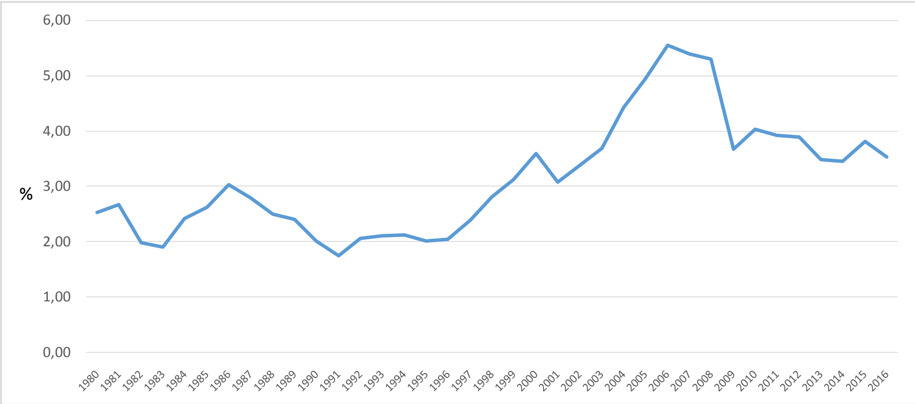
Figure 1 World Exports of goods and services (% of world GDP)



Data Source: World Bank

Figure 2 below reveals the scope of the widening in global current account imbalances after 1980s. After the Volcker Shock there has been an imbalances episode in the middle of 1980's, due to the US rising trade deficits. FED had raised interest rate in order to fight against inflation beginning from 1979 and kept it at high levels till the late 1982. This action caused a dramatic appreciation in US dollar which in turn had weakened the international trade competitiveness of US and caused a rise in US current account deficits. The first episode of current account imbalances had occurred due to these deficits of US.

Figure 2 Cumulative World Current Account Balances (absolute values, % of worDP)



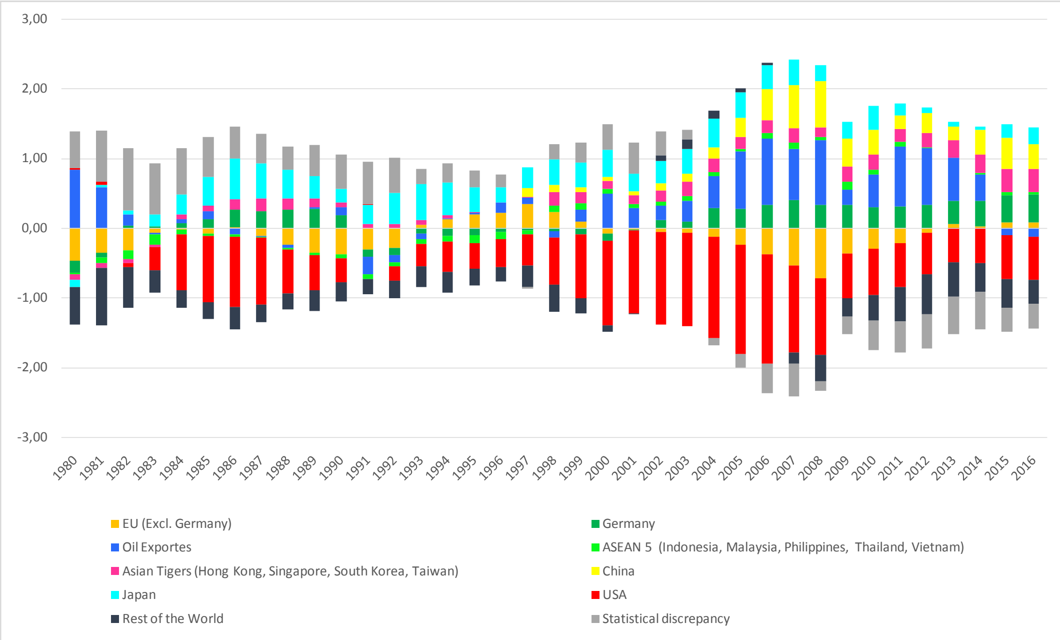
Data Source: IMF WEO database, October 2016

The second current account imbalances episode after 1980s that called "global imbalances" in the literature has started in 1996. Global imbalances have grown rapidly and steadily after 1996 until the recent global crisis. The mild correction of imbalances in 2001 partly results from the 2000/2001 USA recession and partly from the decline in oil prices and hence the surpluses of the oil exporters. The role of the US current account deficits is evident throughout whole era, as the most important component of global current account deficits. In the wake of the 2007/2008 global financial crisis there had been an important current account adjustment but global imbalances are still a problem for the world economy. Also the dispersion of current account deficits and surpluses remain the same structure of pre-crisis period. Global imbalances are still at the forefront of policy debates with their role in the crisis, their origins and their sustainability.

This last episode of external imbalances that started in the mid 1990s differs in terms of both their volumes and the flow direction of net savings. In the mid 2000s, in which global imbalances have peaked, the net savings resulted from vast current account surpluses of emerging countries have flowed to US with record high current account deficits. Thus, the movement of capital has been from emerging countries to advanced countries for the first time.

After evaluating the development of global imbalances in total, an analysis of the regional dispersion of global imbalances should be done in order to understand the roles undertaken by countries in the increase of global imbalances. As figure 3 shows, there has been striking structural developments in both deficit and surplus parties of the global imbalances.

Figure 3 Dispersion of World Current Account Balances (% of world GDP)



Data Source: IMF WEO database, October 2016

For deficit side, the high levels of US deficits in mid 1980s are striking. But the main increases occurred in mid 2000s and turned out to be a global problem. US current account deficits has increased dramatically after 1996 and reached to a peak of record high 806.7 billion dollars in 2006. Even though there had been a mild adjustment in US current account deficits after the 2007/2008 global financial crisis they still remain at historically high levels.

For the surplus side, the increasing US deficits in mid 1980s had been funded by the surpluses of advanced countries like Japan and Germany and by Asian Tigers. Throughout the period of widening global imbalances after 1996, the surpluses of various countries or regions have had important role in offsetting the deficits of US in different times. As an advanced country, Japan has maintained its high level of current account surpluses since the beginning of 1980s. Also some of the advanced EU countries, especially Germany after 2002, have had substantial amount of current account surpluses.

The most striking feature of global imbalances era is the raising amount of current account surpluses of emerging countries which has become the majority part of the global total surpluses after 2000s. Especially Chine and oil exporters have run vast amount of current account surpluses and have funded US current account deficits. With adding on the current account surpluses of other East-Asian countries (like ASEAN countries) the majority of the global surpluses belong to emerging countries. Thus, capital has begun to flow from emerging countries to US especially since 2005. This structure of global imbalances has prevailed despite of the 2007/2008 global financial crisis.

A vast literature has been developed to explain the economics phenomenon called global imbalances that have overviewed above. In the following part this literature is analyzed and discussed briefly.

The Theories on Global Imbalances

The balanced foreign trade theories of pre 1980s had been inadequate in explaining the current account imbalances after 1980 when both trade and capital flows widely liberalized and also financial deregulations accelerated. There had been theories that had tried to explain the increasing global imbalances in this era from a perspective of intertemporal consumption and saving. After late 1990s, current account imbalances increased tremendously in global and with this development the notion "global imbalances" begun to be used. And new line of theoretical explanations for global imbalances emerged.

In the wake of entering the neoliberal era there had been a paradigm shift in economics. With this shift the balanced foreign trade theories of post war era has given way to intertemporal approach which *views the current-account balance as the outcome of forward-looking dynamic saving and investment decisions* (Obstfled & Rogoff, 1994, p. 2). While the orthodox view regarding free trade as beneficial for all nations was still valid, idea of current account imbalances being the weakness of national economies has begun to change. Current account imbalances have begun to be seen as instruments of more rapid and efficient investment through intertemporal borrowing and lending for especially less developed countries (Milesi-Ferretti & Razin, 1996, p. 20).

But, the intertemporal approach were incapable of explaining the US current account deficits which has started to increase in the first half of the 1980's and reached % 3.3 of GDP at 1987; then has accelerated after the second part of 1990s and come up to enormous magnitudes. For this reason theories that assert anomalies in consumption and saving decisions of government and private sector as the causes of current account deficits gained popularity in 1980s and first half of 1990s. But when these deficits reached unprecedented levels and there has been no adjustment process, theories that were looking for the underlying causes of US current account deficits apart from the developments in US economy has come out in 2000s.

The most popular explanation among them was the global saving glut thesis of former FED president Ben Bernanke. According to Bernanke (2005), especially after the 1997 Asian Crisis, emerging countries begun to accumulate reserves as an insurance against risks of prospective crises. As a result, increased savings flowed to US which has the deepest and most developed financial markets and issues the reserve money of the world. Thus, adjustment process of increased US current account deficits could be possible only with an increase in consumption and investment expenditure of countries that have caused global saving glut.

Another controversial explanation is the Bretton Woods II hypothesis of Deutchebank trio Dooley, Folkerts-Landau and Garber (2003; 2004a,b; 2014). Bretton Woods II hypothesis views the uphill flow of capital from periphery to center[1] as a successful development strategy. According to this view the capital flow towards center provides collateral for the investments (especially foreign direct investments) of the center in the periphery. Without this collateral periphery countries would be lack of international financial intermediation. For this reason adjustment of US current account deficits depend on convergence of periphery countries (especially China) like the convergence of Japan and Germany to the center during Bretton Woods era. But due to the succeeding new periphery countries it is asserted that this adjustment process and US current account deficits would last for many years.

There have been also pessimistic views on US current account deficits within orthodox economists. Before the 2007/2008 global crisis some authors (e.g. Obstfled & Rogoff, 2004; Roubini & Setser, 2005) were concerned about the raising global imbalances as a possible cause of an upcoming crisis. They were basically concerned about a sudden stop in the capital inflows towards US due to its raising debt and therefore raising apprehension of its debtors. But the expected crisis have not occurred in the time period that they have predicted and when it came true the reason was not a sudden stop in the capital inflows towards US and the crisis had a more global character than anyone could have predicted.

Those orthodox theories aiming to explain the global imbalances, neglect the contradictions within the global capitalist production relations. They justify the current account deficits of US by searching the causes of the imbalances outside of US economy. However, the origins of global imbalances that have arise during neoliberal era; can only be analyzed with understanding the contradictions immanent to the era. And contrary to aforementioned orthodox theories, the origins of imbalances are associated with political and economic hegemony of US. In this context, under the following title the global imbalances will be analyzed with comprehension of transformation in global production relations in conjunction with financialization during neoliberal era under US hegemony.

Global Imbalances: A Heterodox Approach

After the Second World War, in the capitalist realms there had been a relatively sustainable growth trend until the end of 1960s. Throughout the era controls had been imposed on foreign trade and capital flows along with the foreign exchange controls. Consequently, large balance

1 Orthodox economics theory assumes that the flow of capital would be from center to periphery where the capital's rate of return is higher.

of payments imbalances were able to be avoided. Whilst a national economy runs balance of payments deficit, IMF intervened and imbalances were adjusted through devaluations. In the event that devaluations were inefficient, IMF had given credit support to related country. The other Bretton Woods institution World Bank had run the operations of supporting the reconstruction and development programs in especially in Europe.

In this period, hegemon country US had made foreign direct investments in developing Europe and underdeveloped countries; and exported intermediate and investment goods to these countries. Also with the aids (Marshall Aids) and loans, US had provided the conditions and purchasing power that would stimulate the capitalist production in these countries. During the period, while running foreign trade surpluses US had run balance of payments deficits in order to provide the US dollar needed in the system for the sustainability. The global capitalist order after Second World War, that depends on fixed exchange rate system and controls on capital flows and financial markets, has created balanced current accounts.

This relative sustainability in both national and international economic structures has ended with the structural crisis of 1970s that is resultant of capitalist accumulation regime's internal contradictions and profit rates begun to fall rapidly. Neoliberal transformation begun in mid 1970s; floating exchange rate regimes have been introduced and the link between currencies and gold was broken. The fall in profit rates stopped with the processes of neoliberal reconstruction, globalization and financialization[2]. But also a global speculative period of uncertainty had started with the recurrent financial crises. The increase in capital flows has triggered the financial crises especially with sudden outflows and also restricted the policies regarding exchange rate and interest.

Yet it was assumed that increase in capital flows after liberalization would improve the working of the international markets. Free-floating currencies would have reached the appropriate levels rapidly due to free capital flows. The current account deficits that were enabled by these flows were assumed to promote economic growth, especially in less developed countries. But the vast current account deficits in this period have reflected the increase in US consumption expenditures instead of investment expenditures in less developed countries. The floating currencies under free capital flows haven't moved in accordance with the long term shifts of international trade competition as presumed; instead they have displayed speculative tendencies and have overvalued or undervalued. Especially the speculative tendencies of real exchange rates had destructive impacts on real economies (Glyn, 2005, p. 25).

Thus, the current account imbalances reached enormous amounts globally in mid 2000s as a consequence of neoliberal policies under US hegemony. The emergence of vast current account imbalances (so called global imbalances) as a serious problem in global economy can

2 See Walden Bello, "A Primer on the Wall Street Meltdown", Transnational Institute, 25 September 2008, https://www.tni.org/en/archives/act/18716.

be explained with three mechanisms. First deindustrialization of US economy and its shift to over accumulation zone with neoliberal transformation; second the shift of global production to East and South Asia and the destructive impacts created by the integration of China into global capitalism; third the increasing financialization enabling the sustainable external imbalances with credit recycling mechanism.

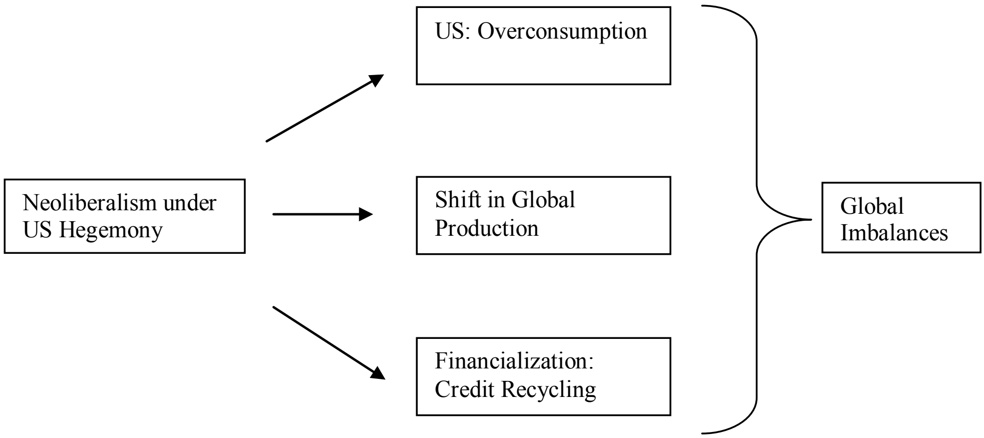


Diagram 1: Emergence of Global Imbalances

In order to explain global imbalances; the emergence and working of these mechanisms after 1980 in global economy within neoliberal transformation should be analyzed in more detail:

US: Overconsumption Zone

In 1979 Paul Volker, president of FED, raised the interest rates sharply against rapidly increasing inflation, without considering the adverse effects on employment. This supply side monetary policy has perfectly fitted the neoliberal way of thinking in the context of protecting financial gains against inflation threat and thereby can be seen as the beginning of neoliberal era (Dumenil & Levy, 2015, p. 78).

Reagan administration had delivered tax cuts especially for high income groups and enormous military expenditures in order to compensate the depression caused by contractionary monetary policy. The consequent government deficits could have caused a serious recession by increasing the already high interest rates if it wasn't for the fund flow from all around the world to US owing to high interest rates. Especially Japan investors had provided huge amount of credits to US government and funded US budget deficits in order to maintain the Japan exports (Murphy, 2006, p. 43).The current account deficits increased in accordance with deteriorating budget balance and this phenomenon evoked the popularity of Twin Deficit Hypothesis.

US dollar started to increase until mid 1980s with the sharp hike in interest rates. The appreciation of dollar with rising interest rates enabled the financial sector to gain strength whilst decreasing the international competitiveness of manufacturing sector. The production, investment and utilization rates of manufacturing sector declined and therefore bankruptcy of companies and substantial dismissals occurred within the sector (Brenner, 2007, p. 67). US manufacturing companies abstained from turning their profits into new investments and they rather preferred financial profits from mergers and acquisitions, exchange transactions, credit and insurance operations (Brenner, 2007, p. 75). Thus they were able to compensate their losses from production activities with the profits from such operations (Harvey, 2015, p. 40).

Public sector deficits in the first half of the 1980s replaced by private sector deficits caused by wealth effects of stock market bubble in the second part of the 1990s.In this period households and firms increased their consumption and investment expenditures widely by saving less and borrowing more. Tendency of investment was high especially among firms. Private sector saving-investment balance had deteriorated due to these behaviours of households and firms, throughout the period. Improvement in public sector saving-investment balance in the period was inadequate for restraining the widening in aggregate saving deficit thereby US current account balances increased rapidly.

After the intervention to overvalued dollar with plaza accord in 1985, dollar depreciated substantially and remained at that relatively low level of value until the shift to strong dollar policy by Clinton Administration in 1995. Subsequent Treasury secretary Lawrence Summers, defended this theory by asserting that continuation of the US dollar depreciation would have caused loss of credibility in financial markets and weakened the discipline needed to increasing the productivity (Glyn, 2005, p. 9).

Rapid advances in information technology and resulting increase in productivity enabled the high growth rates after mid 1990s (Blanchard & Milesi-Ferretti, 2009, p. 8). The appreciation in dollar after mid 1995 and rise in the prospective profit rate due to the upsurge in productivity promoted the capital flows towards US and increased demand for innovative companies stocks in information technology sector (Kregel, 2001, p. 26). This demand growth for stocks and appreciating dollar increased further the return on such investments and thereby caused an increase in speculative flows towards US (Glyn, 2005, p. 9).

In the second part of the 1990s, market values of stocks increased rapidly, independently of profitability of representative companies and triggered the stock market bubble (Brenner, 2007, p. 14). From the March 2000, the wealth effect created by stock market bubble faded away with the rapid decrease in stock prices and US economy fell into recession. FED intervened swiftly and decreased the interest rates sharply. In addition Bush administration introduced fiscal expansion policies with tax cuts (Roubini & Mihm, 2012, p. 262).

Credit expansion created by FED with reducing interest rates, led to an increase in asset prices especially in house prices. Surge in asset prices triggered the housing bubble with deregulations in this period. Thus economic boom after the recession enabled by housing bubble. The bubble effect created through stock prices in the second part of the 1990s, created through house prices this time (Brenner, 2007, p. 354).

The rising mortgage loans of households and later the securitization process of these loans enabled the increase in consumption of households as the house prices surge. Decrease in borrowing cost with the interest rate cuts of FED also fostered this increase. Household consumption including housing investment surged above % 70 of GDP. Household debts also reached enormous amounts in accordance with the substantial increase in household consumption. The debt to disposable income ratio of US households surged above % 140 in 2007. This contradiction handled by financialization of even the poorest part of the US working class (Lapavitsas, 2010, p. 29). Thus, US current account deficits reached a record high level of approximately 806 billion dollar in 2006. US deficits have constituted almost all of the deficit side of global imbalances that became prominent as one of the causes of 2007/2008 global financial crisis.

After 2007/2008 financial crisis, both firms and households decreased their consumption and investment expenditures. In order to avoid the deepening of recession US government introduced fiscal expansion policies, and increased public sector deficits weakened adjustment process of current account imbalances

Shift in Global Production

Shift in global production is related to increased global mobility of means of production. And this is mainly depends on global cost arbitrage principal in which multinational companies shift their production in order to obtain the lowest cost advantage through undervalued exchange rates, low taxes, subsidies and abundant and cheap labour (Palley, 2014, p. 15). Preliminary institutional and legal regulations regarding global mobility of means of production started in 1980s with the shift in US manufacturing from north (rust belt) that has old, heavy industries and high unionization rates to south (sun belt) that has low unionization rates (Harvey, 2015, p. 34).

In 1990s these regulations accelerated with North American Free Trade Agreement (NAFTA). This agreement transformed US, Canada and Mexico into a single production zone. Thus, strong dollar policy has become desirable as it decreases the prices of imported goods and thereby increases the profit margin on them (Palley, 2014, p. 16). US multinational corporations began to decrease their manufacturing activities in US and shift their production to regions with low costs. This process has been promoted by export-led countries that were seeking for foreign direct investments; thus global economy became dependent to US consumers and vulnerable against the economic downturns in US (Palley, 2014, p. 17).

Other important development regarding global capitalist production system is the rapid integration of China into the system and becoming a leading economy. China has focused into socialist market economy aim after the famous "south tour" of Deng Xiaoping in 1992. China had experienced extensive privatizations in 1990s and ten millions of public and collective sector workers had lost their jobs. Remaining public sector workers lost their traditional socialist rights. After the cancellation of the people's commune system public services collapsed and more than a hundred million people forced to domestic immigration (Li, 2008, pp. 112-113).

Thus, in 2000s private capital accumulation became dominant in growth trend of China. Whilst productive investment rates of China reached high levels capital stock increased rapidly. This wasn't an unprecedented situation for Asian countries but what made China's experience different was its relatively vast labour army (Glyn, 2005, pp. 14-15).

The shift of US multinational corporations' production and investments to Asian countries, notably to China, has created reel effects on US economy. During the 2001-2007 business cycle expansion, whilst US manufacturing employment decreased, investment expenditures had been weak. Against this macroeconomic weakness FED decreased interest rates to historically low levels which fostered the housing bubble (Palley, 2014, pp. 18-19).

Financialization: Credit Recycle Mechanism

Liberalization and deregulation processes in financial markets throughout neoliberal era, has paved the way for substitution of decreasing profits in real sector (which had been in recession since 1970s) with profits from financial transaction. Financial deregulations in neoliberal era enabled highly liquid and short term funds to cross the national borders through international credit mechanisms which in turn increased the financial vulnerability within countries and eased the international mechanisms that transmit vulnerability. These deregulations also caused financialization of ordinary people's incomes and thus increased debt levels in countries (Wolfson, 2002, p. 397).

The main underlying reasons that forces emerging countries to accumulate enormous reserves are preserving their economies against sudden reversal of capital flows and the need of protecting their currencies to maintain their international competitiveness (especially for export-led countries) (Lapavitsas, 2010, p. 32).

These countries were able to attract private investment that were seeking high returns but in turn transferred funds to advanced countries with trade deficits, notably US, through accumulating enormous reserves. Even though US economy was able to sustain its consumption-led expansion with these financial flows they also fostered the 2001-2007 housing bubble (Lapavitsas, 2010, p. 27).

Increase in international credit flows that fostered US overconsumption were enabled by international reserve money role of US dollar. Despite the repression of real wages consumption has maintained via cheap imports. For this reason the dependency of export-led Asian countries (first Japan and then East Asia and China) on US massive consumption for economic expansion has increased. On the other hand the dependency of US on cheap imports caused high levels of trade deficits. But on the contrary to other deficit countries, US have been able to finance its deficits by exporting its debts in the form of treasury bonds and reserves held by creditor countries, in consequence of issuing world reserve money (Vasudevan, 2009, p. 27).

In parallel with its world banker role, US has attracted the surpluses of Asian countries and oil exporters, and then has recycled these in the form of private capital flows towards emerging countries. Private capital flows to US and private capital flows to emerging countries are countercyclical in a fashion that an inflow to one implies an outflow from other. This cycle is critical for preserving the world reserve money role of dollar. These private capital flows towards indebted periphery countries acted as kind of protection mechanism by exporting the crisis to these countries. Throughout the period there had been crises caused by financial vulnerabilities in US too but the consequences of financial crises in periphery countries had been much more destructive (Vasudevan, 2009, p. 27).

Conclusion

While US that has the largest economy and military power of the world and also is the issuer of the world's reserve money, have been running unprecedented current account deficits for the last twenty years; the emerging economies' vast amount of current account surpluses have piled up and flowed to the US in return especially after the late 1990's. Thus, for the first time the movement of capital has been from emerging countries to advanced countries. Despite the effects of the 2007/2008 global financial crisis, the scope of the global imbalances seems decreased only in a moderate manner. The causes of the global imbalances, suggested in literature, like excess savings in emerging countries- so called saving gluts or mercantilist behaviour of emerging markets in the global system-so called Bretton Woods II theory do not seem to completely explain the persistence of global imbalances.

Vast amount of global current account imbalances can be explained beyond the orthodox hypotheses with three developments of neoliberal era under US hegemony. First one of these is the deindustrialization process with the decreased share of US manufacturing sector in aggregate production and the transformation of US into global economy's main demand source that brought about by the high volumes of trade deficits enabled by increasing financialization.

Second one is the effects of shift in global production to south-east Asia and notably integration of China into global economy. The production and saving surpluses of these countries constitutes the supply side of the global imbalances against US deficits.

Third one is related with the credit recycle mechanism between US with sustainable vast current account imbalances and emerging countries, notably China with current account surpluses that enabled by financialization. Through this mechanism US sustain vast amount of current account deficits without any adjustment process in US dollar. Whilst the surpluses of Asian countries and oil exporters flow to US, US recycles these in the form of private capital flows towards emerging markets in accordance with its world banker role. In the event of financial crisis in emerging countries, these capital flows turn back to US that considered having creditable markets and thereby strengthen hegemonic power of US dollar.

References

Bello, W. (2008). A Primer on the Wall Street Meltdown. Transnational Institute, 25 September 2008, URL https://www.tni.org/en/archives/act/18716.

Bernanke, B. (2005). The Global Saving Glut and the U.S. Current Account Deficit. The Sandridge Lecture, Virginia Association of Economics, Richmond, VA., March.

Blanchard, O., & Milesi-Ferretti, G. M. (2009). Global Imbalances: In Midstream. IMF Staff Position Note, SPN/09/29, December.

Bracke T., Bussière, M., Fidora, M., & Straub, R. (2010). A Framework for Assessing Global Imbalances. The World Economy, 33:9, pp.1140-1174, Wiley Blackwell, doi:10.1111/j.1467-9701.2010.01266.x.

Brenner, R. (2007). Ekonomide Hızlı Büyüme ve Balon: Dünya Ekonomisinde ABD'nin Yeri [The Boom and the Bubble: The US in the World Economy]. (B. Akalın, Trans.). İstanbul: İletişim Yayınları.

Dooley, M. P., Folkerts-Landau, D., & Garber, P. (2003). An Essay on the Revised Bretton Woods System. NBER Working Paper, No: 9971, Cambridge MA, September.

Dooley, M.P., Folkerts-Landau, D., & Garber, P. (2004a). The US Current Account Deficit: Collateral for a Total Return Swap. Global Markets Research, Deutsche Bank, August.

Dooley, M.P., Folkerts-Landau, D., & Garber, P. (2004b). Direct Investment, Rising Real Wages and the Absorption of Excess Labour in the Periphery. NBER Working Paper, No: 10626, Cambridge MA, July.

Dooley, M.P., Folkerts-Landau, D., & Garber, P. (2014), The Revived Bretton Woods System's First Decade. NBER Working Paper, No: 20454, Cambridge MA, September.

Dumenil, G. & Levy, D. (2015). Büyük Yol Ayrımı: Neoliberalizme Son Noktayı Koymak [La grande bifurcation En finir avec le néolibéralisme]. (A. Gür, Trans.). İstanbul: İletişim Yayınları.

Glyn, A. (2005). Imbalances of the Global Economy. New Left Review, 34, July-August.

Harvey, D. (2015). Neoliberalizmin Kısa Tarihi [A Brief History of Neoliberalism]. (A. Onocak, Trans.). İstanbul: Sel Yayıncılık.

Kregel, J. A. (2001). Why Advanced Countries Should Address Global Economic Imbalances. (J. J. Teunissen, ed.). in New Challenges of Crisis Prevention: Addressing Economic Imbalances in the North and Boom-Bust Cycles in the South, Chapter 1, pp. 23-39, Fondad.

Lapavitsas, C. (2010). Finansallaşma ve Kapitalizmin Krizi [A Crisis of Financialisation]. (T. Öncel, Trans.). İstanbul: Yordam Kitap.

Li, M. (2008). An Age of Transition: The United States, China, Peak Oil, and the Demise of Neoliberalism. Monthly Review, 59 (11), April.

Milesi-Ferretti, G. M., & Razin, A. (1996). Current Account Sustainability: Selected East Asian and Latin American Experiences. NBER Working Paper No: 5791, Cambridge MA, October.

Murphy, R. T. (2006). East Asia's Dollars. New Left Review, 40, pp. 39-64, July-August.

Obstfeld, M., & Rogoff, K. (1994). The Intertemporal Approach to the Capital Account. NBER Working Paper No: 4893, Cambridge MA, October.

Obstfeld, M., & Rogoff, K. (2004). The Unsustainable US Current Account Position Revisited. NBER Working Paper No: 10869, November.

Palley, T. I. (2014). The Theory of Global Imbalances: Mainstream Economics vs. Structural Keynesianism. http://www.thomaspalley.com/docs/research/theory_of_global_imbalances.pdf.

Roubini, N., & Mihm, S. (2012). Kriz Ekonomisi: Dünya Ekonomisinin Çöküşü ve Geleceği [Crisis Economics: A Crash Course in the Future of Finance]. (I. Tezcan, Trans.). İstanbul: Pegasus Yayınları.

Roubini, N., & Setser, B. (2005). Will the Bretton Woods 2 regime unravel soon? The risk of a hard landing in 2005-2006. Proceedings, Federal Reserve Bank of San Francisco, February.

Vasudevan, R. (2009). The Credit Crisis: Is the International Role of the Dollar at Stake?. Monthly Review, 60 (11), April.

Wolfson, M. H. (2002). Minsky's theory of financial crises in a global context. Journal of Economic Issues, 36 (2), pp. 393-399.

PART II.
CHAP 2.

TÜRKİYE WEALTH FUND (TWF) AS A TOOL FOR FINANCE AND INVESTMENT: TWF'S POSITION IN SOVEREIGN WEALTH FUNDS (SWF)

*Gizem EREN**

Introduction

This paper discusses the importance and necessity of Türkiye Wealth Fund (here after TWF) from moving on the definition and history of wealth funds. The history of Wealth Funds is rooted in 17th century chartered companies. 20th century is accepted to be the real beginning of Sovereign Wealth Fund's (here after SWF). Especially after 2005 at least 40 SWF have been created. In a report by International Working Group of SWF's (IWG, 2008:3) points the same issue: "Recently the rapid accumulation of foreign assets in some countries has resulted in the growing number and size of SWFs." As countries grow their currency reserves they will seek to diversify reserve portfolios and generate greater returns. Why TWF is established will be evaluated because Turkey without have not big currency reserves, current account surpluses and budget surpluses which were essential in order to establish a wealth fund.

Sovereign Wealth Funds, which have grown rapidly in recent years, are companies under state control or state ownership. But on the other hand SWF's main aim is similar to the private enterprises as profit maximization. As Castelli and Scacciavillani asserts (2015: 9) "Sovereign Wealth Funds (SWFs) represent a novelty because, in a nutshell, they are state owned but operate as private entities in financial markets." But these funds are constituted with national incomes which were gain from petroleum exports or exports of non-petroleum products. However, in recent years, it has been observed that SWFs was established in countries where there is no natural resource income or export surplus.

In this study, firstly, a brief historical background was given of SWF's. In the historical background of SWF's we try to point the main features of SWF's. Afterwards an assessment was made on the newly established Turkish Wealth Fund (TWF). TWF's main target and potential to realize the target will be discussed in the conclusion of the paper.

* Hitit University, FEAS, gizemkasap87@gmail.com

History and Definition of Wealth Funds

The well-known definition of SWF as follows: SWF is a state owned investment fund that is commonly established from balance of payment surpluses, official foreign currency operations, the proceeds of privatizations, governmental transfer payments, fiscal surpluses, and/or receipts resulting from resource exports. This definition excludes foreign currency reserve assets of central banks, state owned enterprises (SOEs) in the traditional sense, government employee pension funds or assets managed for the benefit of individuals. (swf institute). Alhassel (2015:4) made a similar definition as follows "SWFs are state-owned investment vehicles that invest globally in various types of assets ranging from financial to real to alternative assets."

Alsweilem, Cummine vd. (2015: 16) asserts that:

"Sovereign wealth funds, in both resource- and reserves-rich countries, have also been given mandates to invest in completely unrelated (and uncorrelated) sectors, such as tourism, entertainment and particularly financial services. These investments can be predicated on the belief that these sectors and industries are either labour (creating employment opportunities) or skills intensive (generating productivity and income gains)."

These funds are called Sovereign Development Funds (SDF[1]). But SWF's origin is the commodities created through commodity exports and non-commodities created through transfer of assets from official foreign exchanges. As seen in the definitions "SWFs are subject to different preferences, goals, and objectives underlying decision-making within their respective domestic authority structures" (Dixon and Monk, 2012 :4)

There are five traditional classification of SWF's. these classifications are also related with their main objectives. In this context to form a relation between the objectives and the classification of SWF's in table could give us an important point in analysing the SWF's. the firs and the traditional SWF's are classed as Stabilization Funds. But currently the main of the SWF's has changed. Political aims and *begger thy neighbour* policies became important.

TABLE 1

Traditional Classification of SWF's	**SWF Objectives[2]**
Stabilization Funds	Stabilizing the budget, help monetary authority to dissipate unwanted liquidity
Savings or Future Generations Funds	Increase savings for future generations. Diversify from non-commodity exports
Pension Reserve Funds	Increase the depth of financial instruments.
Reserve Investment Funds	Fund social and economic development. Sustainable long term capital growth. Earn greater returns than on foreign exchange reserves
Strategic Development SWF's	Political strategy.

1 The investment strategy for SDF's are discussed in Clark and Monk (2015: 6)

2 According to Al-hassan et. al. (2013:4) there can be multiple objectives for SWF's. The same issue is also stated by PWC (2015). Or they have "diverse objectives and strategies" According to Sovereign Investment Lab (2016)

There is not a wealthy literature about the economic and political importance of wealth funds but the literature about the history of sovereign wealth funds (SWFs) is limited. As mentioned by Gelb et al (2014: 26) "[SWF's] have not been systematically surveyed so that much remains to be understood about their processes and activities." It is believed that there is a relationship between mercantilist policies and wealth funds. For example, Braunstein (2014) made such a relationship between SWFs and state owned enterprises.

Chartered companies of the 17th century SWF's have similarities. This is the reason for the relationship between the mercantilists and SWFs. Especially after 2005 the revival of mercantilism and neo mercantilism are debated within the context of SWFs. Liberal economic policies seem as rule for the governments but states sometimes prefer to use state related investment tools in order to gain power and wealth. To gain power and wealth are the twin objectives for both modern states and the states of the mercantilist period. Funds of states, the hegemony of politics and the role of investments abroad are the similarities between the SWF's and mercantilist chartered companies.

The basis for the implementation of the SWFs was laid down in the 1850s, when some of the property of government was converted into a fissure for the benefit of educational institutions in the United States of America. In the modern sense, the first SWF emerged with the structure established in Kuwait in 1953 to assess financial resources derived from oil revenues and institutionalized as Kuwait Investment Authority in 1983. Later on, Asian countries such as China, Hong Kong, Singapore, South Korea and Malaysia, which have surplus commodity balances and especially the Gulf Arab Countries, Russia, the United States and some Central Asian and African countries, which has high commodity revenues, have started the implementation of the SWF in order to profitably evaluate their reserves.

Capital inflows is an important issue for countries whether they are developed or less developed. "In order to gauge the impact of SWFs on global financial markets, it is useful to consider how an increasing accumulation of assets in SWFs could change the pattern of global capital flows" (Beck and Fidora, 2008: 352) The main effect of inflow of capital is a surplus increase in a surplus above the official reserves. The reason of this inflow is generally the surplus in current account. Economies with surplus in their current account have to solve the problem of using or investing this surplus. The management of these international funds generates new investment tools such as SWFs.

The increase in the number and importance of these new investment opportunities or institutions increases the debates about the SWFs. The debates were about the new role of the state in the global financial markets (see Konukman and Şimşek, 2017).

SWFs have become important because of their stabilizing effects on financial system. "SWFs are long-term investors that can supply liquidity and reduce market volatility." (Gomes, 2008:

41). SWFs differ according to their sources for finance, objectives of policy and impact on the whole system. In this paper we will concentrate on the revenues about the current account.

SWFs mainly help to increase the current account surplus and these surpluses are transferred to investment funds and helps to stabilize the exchange rate and by this way stabilizes the possible fluctuations in demand for exports and outside demand for imports. The surplus in the current account without the SWFs will generate an increase in the quantity of foreign money and this will decrease the value of the exchange rate which means depreciation. Exports will be more competitive and imports will be more expensive. Current account deficit should improve. But it will also cause higher prices and demand pull inflation.

SWFs will help to invest the excess of current account to profitable areas. When we let the market work, the economy can grow but the cost of this grow will be higher prices and inflation. Intervention of state to economic activities with the SWFs would also cause growth but without the costs such as higher prices and inflation. And the allocation of the resources could be better with SWFs.

Türkiye Wealth Fund (TWF)

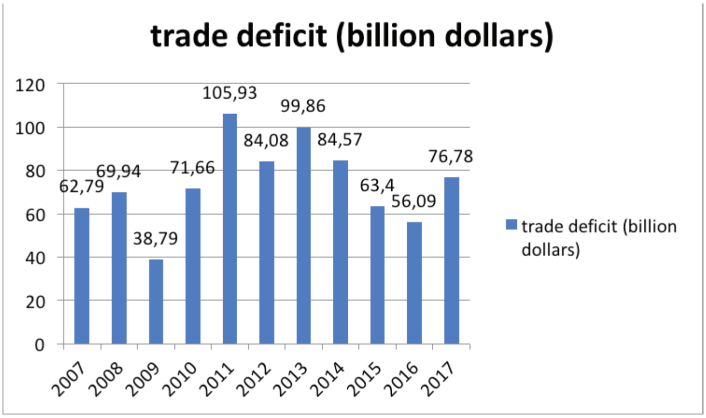
Türkiye wealth fund (TWF) is established for a stronger Turkey with the aim of deepening the financial assets of Turkey, finding foreign resources and to take part in great investment projects (TBMM, 2016).

The mission of TWF is to develop and increase the value of Turkey's strategic assets and consequently provide resource for Turkey's primary investments. The vision of TWF will become one of the most successful wealth funds. The aim of TWF is furthering development and increasing economic stability. In the legislation part with the establishment law the main aim of TWF is to participate in strategic, large scale investments. Karagöl and Koç (2016: 7) asserts that "TWF will be an important finance source for important huge projects such as Channel İstanbul (Kanal İstanbul)" the main aim seems as providing resource for primary investments such as Channel İstanbul.

We will turn back to this issue. But firstly analysing the structure of TWF[3] could be important. TWF is not an ordinary SWF. Nearly all the SWF's are established to benefit the country's economy and citizens with the central bank reserves that accumulate as a result of budget and trade surpluses. There is something different in TWF. TWF is not established to use budget and trade surpluses. Turkey does not have trade surpluses on the contrary Turkey's trade deficit amounted to about 76.78 billion U.S. dollars.

3 A news in Anadolu Haber is interesting to point that the TWF is get stronger with "huge" institutions.

Figure I



In the above graph Turkey's economies trade deficit is obvious. The average of the last ten years' trade deficit is approximately 74 billion dollars. There is not a similar country as Turkey that establishes sovereign wealth fund with trade deficits. On the contrary the countries establish SWFs to use their trade surpluses more profitably.

Kuwait, Qatar, Norway, Saudi Arabia, Hong Kong and Brazil are the top countries with the largest budget surplus and Japan, China, Taiwan, Singapore, Thailand and Russia are the top 20 countries with the largest surplus in current account balance. When we look at the list of the countries by SWF's we see that China, Saudi Arabia, Norway, Singapore, Kuwait, Hong Kong and Qatar SWF's have the most asset value. These countries either have surpluses in their current account or surpluses in their budget or both. On the contrary Turkey's budget has a deficit as Turkey's current account deficit.

In this context it is interesting about the establishment of TWF. Turkey neither have a surplus in budget nor in the current account. So it seems not possible to finance TWF with the ordinary finance of SWFs namely reserves. As Dedeoğlu (2017) points it is a "mystery" for now how transferred assets to TWF will create financial power to invest. TWF divert from being run of the mill in the establishment process. Also the aim of TWF is also interesting as mentioned above. TWF is established to finance such projects as Kanal İstanbul connecting to Black Sea to the Sea of Marmara. This Project was first formulated in April 2011 nearly one and a half months before the elections. And it always repeats when the elections get nearer. In this context such huge projects that thought to be financed by TWF's are election promise that are given by the government. TWF is also engaged in a form of populism.

According to TWFs establishment rule, there needs to be 5 members in the board of directors. But for months this board consists of just 4 members.

What TWF did not do are: TWF has not spelled any asset. TWF has not used any credit. TWF has no activity. The sub funds have no activity. The sub funds have no assets. TWF have just one activity. That is to rent car for the boards of directors. All this information's are written in the TWF web page. So TWF seem is engaged in an election promise.

Conclusion

TWF is not so much related with wealth as shown above. It seems as an investment tool for mega (imaginary) projects. The similarity between the SWF's and TWF is just on the name. Turkey have no assets, no surpluses to invest in sovereign funds. And the economy of Turkey does not seem good especially after the current currency crisis. Currently Turkish economy plunges into a contraction, unemployment increases and the value of foreign currency (dollar) is increasing.

The constitution of TWF is at a time when Turkey's national income has stopped growing, a newly established entity will use large chunks of existing public funds at the expense of other public institutions. The TVF will be exempt from public audit and supervision, and function as a company. This is perhaps a fantasy come true for the goverment, whose members often say the state should operate like a company. Whether this leads to stability or power struggles and fiscal disarray, only time will tell. Finally, Turkey's wealth fund is less about wealth and more about debt. (Sönmez, 2017)

References

Al-Hassan, A., Papaoannou, M., Skancke, M., Sung, C. C. (2013). *Sovereign Wealth Funds: Aspects of Governance Structures and Investment Management*. https://www.imf.org/external/pubs/ft/wp/2013/wp13231.pdf (Erişim Tarihi: 04.05.2017)

Alsweilem, K. A., Cummine, A.; Rietveld, M. and Tweedie, K. (2015). *Sovereign Investor Models: Institutions and Policies for Managing Sovereign Wealth*. http://projects.iq.harvard.edu/files/sovereignwealth/files/investor_models _final.pdf (Erişim Tarihi: 04.06.2017)

Anadolu Ajansı (2017). *Türkiye Varlık Fonu 'Dev' Kuruluşlarla Güçlendi*, http://aa.com.tr/tr/ekonomi/turkiye-varlik-fonu-dev-kuruluslarla-guclendi/742325 (Erişim Tarihi: 04.05.2017)

Beck, R. ve Fidora, M. (2008). "The Impact of Sovereign Wealth Funds on Global Financial Markets". *Intereconomics*, 43 (6), pp. 349-358.

Braunstein, J. (2014). "The Novelty of Sovereign Wealth Funds: The Emperor's New Clothes?", **Global Policy**, 5(2), pp. 169-180. doi: 10.1111/1758-5899.12095

Castelli, M.& Scacciavillani, F. (2015). "SWFs and State investments: A preliminary general overview" In *Research Handbook on Sovereign Wealth Funds and International Investment Law,* Ed. Fabio Bassan, UK and USA: Edward Elgar Publishing, pp. 9-37.

Clark, P. B. & Monk, A.H.B. (2015). *Sovereign Development Funds: Designing High-Performance, Strategic Investment Institutions*. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2667974 (Erişim Tarihi: 28.05.2018).

Dedeoğlu, E. (2017). *Türkiye Varlık Fonu Bu Portföyü İle Ne Yapabilir?* TEPAV Değerlendirme Notu.

Dixon, A.D. & Monk A.H.B. (2012). "Rethinking The Sovereign in Sovereign Wealth Funds", *Transactions of the Institute of British Geographers*, 37(1), 104-117.

Gelb A., Silvana T., Håvard H., Noora, A. Ve Gregory S. (2014), *Sovereign Wealth Funds and Long- Term Development Finance Risks and Opportunities*. World Bank Policy Research Working Paper.

Gomes, T. (2008). "The Impact of Sovereign Wealth Funds on the International Financial System", *Financial System Review*, Bank of Canada, pp.41-44.

IMF (2008). *Sovereign Wealth Funds A Work Agenda*. https://www.imf.org/external/np/pp/eng/2008/022908.pdf (Erişim Tarihi: 18.05.2018).

IWG (2008) "Sovereign Wealth Funds Generally Accepted Principles and Practices: Santiago Principles." http://www.iwg-swf.org/pubs/eng/santiagoprinciples.pdf (Erişim Tarihi: 22.05.2018).

Karagöl, Erdal T. ve Koç, Yusuf Emre (2016). Dünyada ve Türkiye'de Varlık Fonu, Setav, https://www.academia.edu/33388708/D%C3%9CNYADA_VE_T%C3%9CRK%C4%B0YEDE_VARLIK_FONU (Erişim Tarihi: 22.05.2018).

Konukman, A. and Şimşek, O. (2017). Ulusal Varlık Fonları ve Türkiye Uygulaması, Çalışma ve Toplum, 55, pp. 1913-1944.

PWC (2015). *The taxonomy of Sovereign Investment Funds*. https://www.pwc.com/gx/en/sovereign-wealth-investment-funds/publications/assets/pwc-the-taxonomy-of-sovereign-investment-funds.pdf (Erişim Tarihi: 18.04.2018).

Sovereign Investment Lab (2016). *The Sky Did Not Fall.* Sovereign Wealth Fund Annual Report. http://www.ifswf.org/sites/default/files/Bocconi%20SIL%202016%20Report.pdf (Erişim Tarihi: 18.05.2018).

Sönmez, M. (2017). "Turkey's Wealth Fund is Less About Wealth and More About Debt", http://mustafasonmez.net/?p=5873 SWF Institute, (Erişim Tarihi: 20.05.2018).

TBMM. (2016). "*Türkiye Varlık Fonu Kurulması ile Bazı Kanun ve Kanun Hükmünde Kararnamelerde Değişiklik Yapılmasına Dair Kanun Tasarısı ile Gerekçesi*", 1 Ağustos 2016. http://www2.tbmm.gov.tr/d26/1/1-0750.pdf (Erişim Tarihi: 24.05.2018).

TVF, http://turkiyevarlikfonu.com.tr.

PART II.

CHAP 3.

GLOBALIZATION AND INCOME INEQUALITY

Dr. Fındık Özlem ALPER

1. Introduction

Globalization, which is intensely dealt with all over the world since the 1980s, is a very comprehensive and dynamic concept that has its social, political and cultural dimensions as well as its economic dimensions that is subject to change. Despite the absence of a consensus on the definition, globalization can be described in general terms as a complicated process through which integration and interdependence among national economies are increased due to the facilitation of travel and migration, the spread of technology and knowledge, the growth and deepening of international trade, finance and direct investment flows (Dreher, 2006; Goldberg and Pavcnik, 2007; Keeley, 2015).

Today, the most criticized social outcome of globalization is the social injustice or inequality both between countries and within countries themselves. It would not be correct to attribute the income inequality, which is one of the most important problems the world faces expressing a situation in which income distribution is not regularly and fairly shared, only to globalization. Nonetheless, the free competition caused by the globalization process has led to a further increase of inequality in developed and especially in developing countries. In general, economists ignore the social cost of bringing forth the affirmative aspects of globalization, while emphasizing the benefits of free mobility of goods and services (Rodrik, 1998). The 2018 World Inequality Report, prepared by more than 100 researchers under the "World Inequality Laboratory" founded by the French economist Thomas Piketty and his accompanying team who caught the attention of the whole world with the unequal rise in his book entitled "Capital in the Twenty-First Century" published in 2014, clearly indicates that everyone has not benefited the world's economic growth equally, and the income inequality has increased even more within the last 35 years. According to the report, incomes of the top 1% wealthiest people doubled the incomes of the bottom 50% people in the World since 1980 (World Inequality Report, 2018).

Stone et al. (2018) asserted that income inequality had risen since the 1970s and that the incomes of the upper-income class continued to grow at a rapid pace as income growth of

* Niğde Ömer Halisdemir University, Faculty of Economics and Administrative Sciences, Department of Economics, 3/324, 51240-Niğde, Turkey. E-mail: oalper@ohu.edu.tr, Tel: +90-388-225-2058

households in the middle and lower income brackets declined rapidly. Similarly, the increase in inequality experienced in the United States following the 1980s was recorded as a historically unprecedented eruption. The share of total income accrued by the top decile income holder was at the 30-35% level from 1950 to 1970, and it increased by 15 points throughout the 2000-2010 period at 40-45% level. If the increase in inequality continues at the same pace, it is predicted that the share of the top ten percent of the national income would rise to 60 percent by 2030 (Piketty, 2014).

The relationship between globalization and income inequality is quite a controversial issue. The debate on this issue can be categorized into two distinct movements, namely, "pro-globalization" and "anti-globalization." Neo-liberal economists who are in favor of globalization argue that the process of rapid growth due to trade openness and liberalization in the medium and the long-run would be reflected in the economy as a whole, thereby increasing the average income and reducing poverty in general (Harrison, 2007; Dollar and Kraay, 2004; World Bank, 2002).

Anti-globalist economists argue that the growth process that emerges as a result of globalization does not reflect on all segments of the society and that inequality in distribution leads to inequality in income distribution, and thus further increase poverty (Rodriguez and Rodrik, 2000). Birdsall (2006) suggested three main reasons why globalization increases inequality in developing countries. Firstly, global markets tend to favor the gains of countries increasing and individuals with more productive resources. Secondly, the current negative externalities in global economies cause the emergence of new costs in countries with weak and disadvantaged economies. Thirdly, the existing rules in global economies tend to provide countries and individuals that acquire economic power with benefits.

Although the impacts of globalization on income distribution are controversial, empirical evidence exists that globalization has increased income inequality in both developed and developing countries in recent years (Beck et al., 2007; Dollar and Kraay, 2004; Goldberg and Pavcnik, 2007; Manning, 1998; Stiglitz, 2002; UN, 2013a; Wade, 2004). Deterioration of the distribution of income in both developed and developing countries so that only a small part of the population has an excessive share of the total income and wealth created, as well as the great inequalities in education, health and other human development possibilities affecting the social balance and social solidarity negatively would attract the attention of policymakers and social scientists as well as individuals (UNDP, 2013b; Piketty, 2014). To this end, the impacts of globalization on income inequality is examined in the study. Firstly, the conceptual and theoretical framework of the relationship between globalization and income inequality is discussed, and applied studies in the literature are introduced. Later on, the impact of economic, social, political sub-components of the globalization and the impact of general globalization index, as a weighted average of economic, social and political sub-components of globalization, on income inequality is analyzed using the data obtained from selected 28 European countries over the period 2005-2015 with the help of the panel data analysis method.

2. Theoretical Framework: Globalization-Income Inequality Relationship

The dramatic increase of income inequality in emerging economies, which had been externally driven by neo-liberal policies particularly after 1980, has drawn attention to the relationship between globalization and income inequality. Therefore, it is crucial to examine the channels through which globalization affects income inequality. Mills (2009) described the mechanism that links globalization to inequality in Figure 1.

Figure 1: Mechanisms linking globalization to inequality.

GLOBALIZATION			
Internationalization of markets	Increased competition between nations	New ICTs & increased interconnectedness	Rising relevance and volatility of markets

INCREASES IN:				
Trade openness	Financial openness	Foreign Direct Investment	ICT capital investment & use	Migration and mobility of workers

NATIONAL INSTITUTIONAL FILTERS			
Education systems	Employment & industrial relations systems	Welfare regime	Migration restrictions

INDUSTRIALIZED COUNTRIES	**DEVELOPING ECONOMIES**
• Deindustrialization • Weaker bargaining position of labor • Capital flight/international relocation of jobs • The increased premium on higher skills for knowledge-based industries • Shift from higher wages in the industrial sector to lower wages in the service sector • The rise in higher-skilled workers' incomes	• Industrialization • Capital arrival/new jobs • The increased premium on lower skills for labor-intensive industries • Increase in wages for lower-skilled workers • Reduction in higher-skilled workers' incomes

INCREASE IN INEQUALITY	**DECREASE IN INEQUALITY**
AGGREGATE OBSERVATIONS OF INEQUALITY	

Source: Adapted from Mills, 2009.

As illustrated in Figure 1, the impacts of globalization on income inequality can be realized through five different channels: trade openness, financial openness, foreign direct investment, technological change, international migration and labor mobility (Culperer, 2005; Begg et al. 2007; Jaumotte et al. 2013).

2.1. Trade Openness

The view is suggesting that trade liberalization and increasing international trade along with globalization would benefit both exporting and importing countries and, in turn, would improve income distribution is based on the Ricardian model (1817) of Comparative Advantage Hypothesis. According to the Comparative Advantages Hypothesis, which considers the opportunity costs, each country can attain a level of consumption above the production possibilities curve by exporting its surplus portion of the goods produced at relatively lower costs and gains from trade (Foster and Stehrer, 2010).

The relationship between income inequality and trade openness was first examined by Heckscher-Ohlin-Stolper-Samuelson (HOSS) theory. This theory reveals that free trade leads to a rise in the real return of the relatively abundant factor of production in one country, whereas leads to a fall in the real return of the relatively scarce factor of production, thus inequality increases in developed countries (Mahler, 2004). Within the framework of a two-country, two-commodity and two-factor model, increased foreign trade in developing countries with relatively abundant unskilled labor due to tariff reduction would lead to an increase in wages of the unskilled labor force and a decrease in wages of the skilled labor force, resulting in a reduction of income inequality (Asteriou et al., 2014; Jaumotte, 2013).

Contrary to the HOSS theory, which suggests that trade liberalization increases income inequality in developed countries, there is evidence proving that trade liberalization in developing countries leads to an increase in both poverty and income inequality by rendering the economy more fragile (Bannister and Thugge, 2001). Thus, it is not possible to say anything definite theoretically about the relationship between trade openness and income inequality.

2.2. Financial Openness

Another channel through which globalization would have an impact on income inequality is the liberalization of financial transactions. Financial openness can be defined as the liberalization of capital movements, the abolition of financial pressure policies, the integration of foreign financial institutions into the domestic financial system, and the integration of domestic financial markets into international markets by reducing or eliminating barriers to entry (Galindo et al., 2002; Mills, 2009). Within this scope, the financial openness process involves deregulation of interest rates, removal of credit controls, liberalization of international capital flows, privatization of financial institutions and government banks (Mills, 2009).

The theoretical foundations of the financial openness are based on two independently conducted studies by McKinnon (1973) and Shaw (1973). McKinnon (1973) and Shaw (1973) argued that financial liberalization would be one of the best remedies in this context, as countries reduce financial constraints in the process of exploring the macroeconomic implications of financial openness, thereby contributing to the economic growth by increasing financial diversity, savings, and investments (Shaw, 1973).

The negative consequences of financial openness began to emerge in the 1980s, as most of the world economies moved towards financial openness practices. The liberalization of the capital account, especially in weak labor-force institutions and countries with social security structures, points to the link between financial crises and changes in income inequality (Cornia and Kiiski, 2001). Even though the impacts of this situation on income inequality vary among countries, the financial vulnerability of the financial openness has adverse effects, particularly on developing countries (Aizenman, 2002; Asteriou et al., 2014; Kang-Kong, 2014).

Arestis and Caner (2009) argued that financial openness affects income inequality through three channels, although no clear conclusion can be drawn from the studies that aimed at examining the relationship between financial openness and income inequality. The first one involves the impact of financial openness, based on McKinnon and Shaw (1973) hypothesis, on inequality through economic growth. Financial openness affects the economic growth by expanding credit volume and increasing the quality of financial services, thus reduces poverty and income inequality. Secondly, financial spillovers can lead to high growth in economies, leading to macroeconomic volatility and crisis which, in turn, can increase income inequality. Thirdly, easy access to credit and financial systems through financial openness may have a diminishing impact on income inequality (Arestis and Caner, 2009).

2.3. Foreign Direct Investment

Another variable that affects income inequality during the globalization process is a foreign direct investment. Especially in most developing countries, due to insufficient savings, the high consumption propensity leads to savings deficit which causes lower investments again. In other words, as Nurkse points out, these countries are in a vicious cycle. At this point, foreign direct investments can be introduced to meet the capital needs of these countries. As of today, many economists believe that foreign direct investment may contribute to the economic growth and development of the recipient country through the transfers of modern technology, management skills and human capital (Tsai, 1995). Foreign direct investments are considered to have positive impacts on the economy of the recipient country, notwithstanding the impacts on income distribution are generally ignored.

The relationship between foreign direct investment and income inequality is generally considered in the literature within the context of two hypotheses about the income distribution equality of the recipient country (Tsai, 1995):

According to the modernization hypothesis, a large investment (domestic and foreign) would allow the country to grow at a higher rate and increase social welfare. The income inequality view of the modernization hypothesis is explained by the "Kuznets Curve" approach. Accordingly, while income inequality in the first stages of the development process is deteriorating, income distribution would become fairer after a certain level of development is reached.

The dependence hypothesis argues that direct foreign investments would have negative impacts on income distribution. As suggested in the Kuznets Curve approach, income distribution would deteriorate in the first phase, but there would be no improvement in income distribution in the later stages. As industrialization progresses along with foreign direct investment, the foreign trade sectors of foreign investment countries tend to be inclined to create a new social class, in which "worker-elites" with higher wages would emerge, and there would be big differences between wages due to the competition between unskilled workers and therefore, income inequality would increase.

2.4. Technological Change

Following the 1980s, income inequality has increased in developing countries as well as in developed countries. Although technological development is often considered as the driving force of economic growth, it may cause unforeseen side effects such as inequality. The increase in inequality is due to the direct impacts of technological change and the increase in demand for a qualified workforce. Acemoğlu (2003) attributed the rapid rise in wage inequality in the United States to a faster increase in demand for skill than the supply of skills, skill-biased technological change and increased international trade (Acemoğlu, 2003). The skill-biased technological change means that high-skilled labor productivity increases faster than low-skilled labor productivity. This explains the change in employment of high-skilled labor force to the disadvantage of low-skilled labor force. Because, technological advances have shifted demand from high-skilled employees to highly skilled employees, they have led to more employment in computer use and more intensive and more innovative sectors in R&D. In short, technological change has led to increased income disparities between high-skilled and low-skilled employees (Asteriou et al., 2014; Helpman, 2016).

2.5. International Migration and Labor Mobility

Another channel that affects the income distribution between and within the countries is internal and external migration. There are economic imbalances in countries to/from which people migrated where labor mobility is present. Those imbalances appear in such a way that, average income increases in the countries from which people migrate due to the supply of labor diminishes and average income decreases in the countries to which people migrate due to supply of labor increases (O'Rourke, 2001; Culperer, 2005).

The impacts of globalization and the demand for highly-skilled workforce around the world have made international education opportunities increasingly attractive. In this context, in addition to the elements described above, the differences in the possibilities of reaching the educational opportunities for individuals may cause their incomes to differ from each other. Individuals become more qualified and earn higher wages in parallel with their education (Becker and Tomes, 1979; Asteriou et al., 2014).

3. Selected Literature Reviews

Globalization is a multi-dimensional and comprehensive concept that has social, cultural and political dimensions besides the economic one. Therefore, such versatility should be taken into consideration upon examining the relationship between globalization and income inequality.

Both the UN reports and the World Bank reports refer to the increasing inequality in the world in general, indicating that quite adverse social and economic problems arise. Due to the importance of globalization in the process of income distribution of countries, the number of applied studies investigating the impact of globalization on income inequality has increased throughout the recent years for both developed and developing countries. Upon examination of these studies, it can be seen that there is no clear outcome about the relationship between globalization and income inequality due to the difference between the theoretical opinions, the variables used in the studies, the datasets, the sample group and the methods. In this part of the study, research studies that examine the relationship between globalization and income inequality are chronologically summarized in Table 1.

Table 1: Selected literature reviews

Author(s) (Year)	Country Sample	Period	Method	Findings
Mahler (2004)	12 developed countries	1971-1992	Unbalanced pooled analysis	Results differ by countries.
Heshmati (2005)	62 developed and developing countries	1995-2000	Cross-sectional regression analysis	In general, globalization decreases income inequality.
Dreher and Gaston (2006)	Developed and developing countries	1970-2000	Panel data analysis	Globalization increases income inequality in developed countries.

Huber and Stephens (2009)	21 Latin American and Caribbean countries	1970-2000	Panel data analysis	No relationship is found between globalization and inequality.
Perugini and Pompei (2009)	14 European countries	1995-2001	Feasible generalized least square	A non-linear relationship is detected between skill-based technological change and income inequality for five out of eight sectors with different technological intensity. It is found that an increase in the employment of skilled labor increases income inequality up to a threshold, and later on, an adverse relationship occurs.
Bergh and Nilsson (2010)	79 developed and less developed countries	1970-2005	Generalized methods of moments	Income inequality increases as economic freedom rises in wealthy countries. The medium- and low-income countries exhibit deteriorating income inequality as a result of the advancement of social globalization. Liberalization, in general, ha an increasing effect on income inequality.
Faustino and Vali (2011)	24 OECD countries	1997-2007	Static and dynamic panel data analysis	According to the results of static and dynamic models, trade openness has an adverse impact on income inequality. Foreign direct investments tend to increase income inequality according to a static model estimation, while such a relationship becomes insignificant within a dynamic model.
Szekely and Samano (2012)	Latin America countries	1980-2010	Panel data analysis	A positive relationship is detected between trade openness and income inequality. In other words, income inequality rises as trade openness increases.
Jaumotte et al. (2013)	51 advanced and developing countries	1981-2003	Panel data analysis	As trade liberalization and export growth decrease income inequality, financial openness and technological change increase income inequality.
Asteriou et al. (2014)	27 EU countries	1995-2009	Panel data analysis	It is concluded that trade openness decreases inequality in the EU27 group; and financial openness along with foreign direct capital investments, capitalization of capital markets and capital account liberalization increases inequality.

Kang-Kook (2014)	Lower middle and low-income countries	1976-2004	Cross-country regression	It is concluded that financial globalization increases the income inequality and poverty amongst the countries.
Lim and McNelis (2014)	Totally 42 low, medium- and low, and high-income countries	1992-2007	Panel data analysis	There is a positive and significant relationship between trade openness and income inequality in medium- and low-income countries, while there is a negative and significant relationship in high-income countries.
Mihaylova (2015)	10 Central and Eastern Europe	1990-2012	Panel data analysis	It is found that FDI affects income inequality, especially in countries with limited human capital and economic development, FDI increases income inequality.
Shahbaz et al. (2015)	Iran	1965-2011	Structural break autoregressive distributed lag model	Globalization has an inverse impact on income inequality.
Bukhari and Munir (2016)	11 Asian countries	1980-2014	Pooled ordinary least squares and instrumental variable least square technique	It is concluded that trade openness and technological change diminish income inequality in the countries under examination, while financial openness increases income inequality.
Cabral et al. (2016)	12 developed countries and three developing countries	1970-2004	System generalized methods of moments	Globalization affects income concentration through FDI, and there is an almost one to one negative impact of the higher tax on top income (top 0.1%),
Barusman and Barusman (2017)	USA	1970-2014	Ordinary least squares	While foreign direct investments do not have a significant impact on income inequality, trade openness increases income inequality.
Agusalim and Pohan (2018)	Indonesia	1978-2015	Vector error correction model	While there is no long-term relationship between trade openness and income inequality, it is concluded that trade openness has an adverse impact on income inequality in the short-run.

4. Empirical Section

In this section, the dataset is introduced first, then information about the model and econometric method is provided along with the empirical findings.

4.1. Sample Data, Model, And Methodology

The data used in the analysis covering the period 2005-2015 are based on data from 28 selected European countries (Belgium, Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Southern Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Austria, Poland, Portugal, Slovenia, Slovakia, Finland, Sweden, United Kingdom, Iceland, Norway and Turkey). Information on the data used in the study and their descriptive statistics are reported in Table 2 and Table 3, respectively.

Table 2: Information on the data used in the study

Variables	Definition	Source
Gini	Gini coefficient[1]	Eurostat
Glb	Globalization	KOF Globalization Index
Ecglb	Economic Globalization	KOF Globalization Index
Soglb	Social Globalization	KOF Globalization Index
Poglb	Political Globalization	KOF Globalization Index

Table 3: Descriptive statistics on the related variables

Variables	Mean	Maximum	Minimum	Standard Deviation
Gini	29.641	44.900	22.500	4.604
Glb	81.655	90.667	65.350	5.518
Ecglb	76.996	90.167	47.663	8.558
Soglb	81.099	90.730	57.233	6.143
Poglb	86.927	99.544	54.267	11.617

Models 1, 2, 3 and 4 are established and estimated to determine the impacts of globalization and the three subcomponents of globalization (economic, social and political globalization)[2], on income inequality in the direction of the aim of this study.

$$\boldsymbol{Gini_{it} = \beta_0 + \beta_1 GLB_{it} + \varepsilon_{it}} \quad (1)$$

$$\boldsymbol{Gini_{it} = \beta_0 + \beta_1 ECGLB_{it} + \varepsilon_{it}} \quad (2)$$

$$\boldsymbol{Gini_{it} = \beta_0 + \beta_1 SOGLB_{it} + \varepsilon_{it}} \quad (3)$$

$$\boldsymbol{Gini_{it} = \beta_0 + \beta_1 POGLB_{it} + \varepsilon_{it}} \quad (4)$$

1 The Gini coefficient is used by such official institutions and organizations as the World Bank, OECD, EUROSTAT on an international scale, and Turkish Statistics Institute to measure income inequality.

2 For detailed information, see: Dreher, A. (2006). Does Globalization Affect Growth? Evidence From a New Index of Globalization, *Applied Economics*, 38(10), 1091-1110.

The panel data can be defined as the collection of cross-sectional observations pertaining units such as individuals, countries, firms within a certain time interval. The panel is a set of data consisting of N number of units and T number of observations and, thus, having a total of N x T observations. The panel data analyses, as a combination of the cross-section and the time-series, were first introduced by Hildreth (1950), Kuh (1959), Swamy (1970), but the related practical studies in the real sense have begun as of the early 1990s.

The use of panel data analysis in econometric surveys has some advantages over the use of time-series or cross-sectional data. According to Hsiao (2007), the first one of these advantages involves more consistent determinations to be made since the higher degrees of freedom are utilized. Secondly, it is more suitable for modeling complex human behaviors than horizontal cross-sectional or time-series data sets. The third one is heterogeneity. Datasets used in the econometric analysis are usually heterogeneous. Panel data analysis can take this into account, whereas time-series and cross-sectional data cannot control this variation alone.

The cross-sectional dependence should be tested in the first stage of the panel data analysis methodology due to three basic reasons. The first reason is associated with one of the general assumptions of panel data analysis suggesting that the error terms being independent of the units, however, the errors along the cross-sectional units usually have simultaneous correlations.

The second main reason is based on the assumption that all countries are affected at the same degree by a certain shock and also that the other countries which constitute the panel are not affected by a macroeconomic shock initially emerged in any of those countries.

It is more realistic to anticipate an economic shock emerging in any country to affect other countries differently as it did in the 2008 global financial crisis, along with the rise of globalization and the increase in the level of international trade as well as the degree of financial integration in today's world. Therefore, it is necessary to test whether or not cross-sectional dependence exists between the series before commencing the analysis (Menyah et al., 2014), since the results obtained without consideration of cross-sectional dependence would be deviated and inconsistent.

The third and last reason involves the selection of unit root and cointegration test (referred as the second generation tests in the literature) in which such characteristics of the series should be taken into account upon the detection of cross-sectional dependence.

There are several tests in the literature to test the existence of the cross-sectional dependence. In the analysis section of the study, Pesaran, Friedman, and Frees cross-sectional dependence tests are used to analyze the cross-section dependence.

Panel unit root tests that take information about both time and cross-sectional dimensions of the data into consideration are considered to be statistically stronger than time-series unit root tests which take only time dimension information into account (Im, Pesaran and Shin, 2003; Maddala and Wu, 1999; Taylor and Sarno, 1998; Levin, Lin and Chu, 2002; Hadri, 2000; Pesaran, 2007; Beyaert and Camacho, 2008). Because, the inclusion of the cross-sectional dimension in the analysis increases variability (Charemza and Deadman, 1997). The first problem encountered in the panel unit root test is to determine whether or not the cross-sections that formed the panel are independent of each other. Panel unit root tests are divided into two categories at this point, namely, the first- and the second-generation tests. The first-generation tests are divided into two groups according to whether the cross-sections that formed the panel are homogeneous or heterogeneous. Levin, Lin and Chu (2002), Breitung (2005), and Hadri (2000) are based on the assumption of homogeneity; while Im, Pesaran, and Shin (2003), Maddala and Wu (1999), and Choi (2001) are based on the assumption of heterogeneity. The first-generation unit root tests are based on the assumption that the cross-sectional units that formed the panel are independent of each other and that all other cross-sectional units are influenced at the same level by the shock initially experienced by one of the units. To eliminate this shortcoming, the second-generation unit root tests that analyze stationarity by taking the dependence among cross-sectional units into consideration have been developed. The major second-generation unit root tests include Multivariate Augmented Dickey-Fuller (MADF) developed by Taylor and Sarno (1998), Seemingly Unrelated Regression Augmented Dickey-Fuller (SURADF) developed by Breuer et al. (2002), and Cross-sectional Augmented Dickey-Fuller (CADF) developed by Pesaran (2007). In this study, Pesaran (2007) CADF unit root test is used in order to determine the stationarity of the series.

Pesaran (2007) The CADF test is the extended version of the ADF regression along with the cross-section averages of the first-differences and lagged levels of the individual series. In the test, the individual results for each cross-section are obtained by CADF statistics, while cross-sectionally augmented IPS (CIPS) statistics developed by obtaining means are used. The CADF test provides highly consistent results even if the cross-section (N) and time (T) dimensions are relatively small. Also, this test can be used when both $T > N$ and $N > T$ (Pesaran, 2007). Hypotheses of the CADF unit root test are constructed as in Equation 5.

$$H_0 = \rho_i^* = 0 (The\ series\ is\ not\ stationary\ for\ all\ \ panels) \tag{5}$$

$$H_A = \rho_i^* < 0\ (The\ series\ is\ stationary\ for\ all\ panels)$$

In cases where the series of economic variables contain a unit root, the linear composition of these series may be stationary, and the series may be associated in the long-term. There are many panel cointegration tests used in the literature. These include Kao panel cointegration test, Pedroni panel cointegration test, McCoskey panel cointegration test, Hanck panel cointegration test, and Westerlund panel cointegration test. In this study, the long-run relationship between variables is tested using the Westerlund panel cointegration test.

4.1.1. Westerlund Panel Cointegration Test

Westerlund (2007) proposed four panel cointegration tests based on error-correction model to test the existence of cointegration in dealing with panel datasets. At the basis of the tests, there is a test for detecting the existence of cointegration by determining whether or not each unit has its own error-correction. The Westerlund panel cointegration test has three main advantages. The first one involves a fairly flexible test the heterogeneity that is allowed in the long and short-term parameters of the error-correction model. Secondly, unequal lengths of series and unbalanced panels are allowed in units. Lastly, if there is a possibility of correlation between units, resistanta critical values can be obtained by bootstrap method. The hypothesis of the the Westerlund panel cointegration test is given in Equation 6.

H_0 = No cointegration exists among all panels. (6)

H_A = Cointegration exists among all panels.

4.2. Empirical Results

In order to explain long-term relationships between income inequality and globalization, the cross-sectional dependence characteristics of the series should be determined first. Therefore; Pesaran, Friedman and Frees cross-sectional dependence tests are applied, and the results are presented in Table 4.

Table 4: Cross-sectional dependence test results

Cointegration Equation	Pesaran	Friedman	Frees
$\boldsymbol{GINI = f(GLB)}$	21.268 (0.000)	127.048 (0.000)	3.073[1]

Note: The values in the parentheses indicate probability values.

The null hypotheses of the tests are rejected since the probability values of the three tests performed to determine the cross-sectional dependence are lower than 5%. That is to say; there is cross-sectional dependence among the series. As the cross-sectional dependence is detected among the series, CADF test as the second generation unit root test is performed. The CADF unit root test results are indicated in Table 5.

1 At % 5 significance level, Frees cross-sectional dependence critical valeu 0.3103.

Table 5: CADF unit root test results

		Critical Values			Probability Value
At Level	CADF Test Value	1%	5%	10%	
Gini	-1.831	-2.340	-2.170	-2.070	0.296
Glb.	-1.607	-2.340	-2.170	-2.070	0.707
Ecglb.	-1.238	-2.340	-2.170	-2.070	0.990
Soglb	-1.638	-2.340	-2.170	-2.070	0.653
Poglb	-1.125	-2.340	-2.170	-2.070	0.998
		Critical Values			Probability Value
1st Differences	CADF Test Value	1%	5%	10%	
Gini	-4.058	-2.340	-2.170	-2.070	0.000
Glb.	-3.215	-2.340	-2.170	-2.070	0.000
Ecglb.	-3.597	-2.340	-2.170	-2.070	0.001
Soglb	-3.995	-2.340	-2.170	-2.070	0.000
Poglb	-4.021	-2.340	-2.170	-2.070	0.000

Upon the evaluation of the obtained results, the null hypothesis which expresses the stationarity at level is rejected since the CADF test values are lower than the critical table value. According to the results of CADF unit root test performed by taking the first differences, the null hypothesis is accepted since the test values are higher than the critical values at 1%, 5%, and 10% significance levels. Thus, the three variables included in the analysis are not stationary at the level, and they are stationary [I (1)] when the first differences are taken.

The Westerlund panel cointegration test is applied in order to determine whether or not a long-term relationship among the series exists as the next step after determining that the series are difference stationary. The Westerlund panel cointegration test results are shown in Tables 6, 7, 8 and 9.

Table 6: Westerlund panel cointegration test results (Model 1)

Cointegration Tests	Value	Z-Value	Probability Value
G_t	-18.08	-96.939	0.000
G_a	-4.264	2.868	0.998
P_t	-18.082	-10.147	0.000
P_a	-11.905	-8.706	0.000

Table 7: Westerlund panel cointegration test results (Model 2)

Cointegration Tests	Value	Z-Value	Probability Value
G_t	-10.670	-52.837	0.000
G_a	-5.806	1.363	0.914
P_t	-12.961	-5.092	0.000
P_a	-11.056	-7.727	0.000

Table 8: Westerlund panel cointegration test results (Model 3)

Cointegration Tests	Value	Z-Value	Probability Value
G_t	-16.005	-84.588	0.000
G_a	-8.041	-0.820	0.206
P_t	-22.299	-14.310	0.000
P_a	-14.274	-11.438	0.000

Table 9: Westerlund panel cointegration test results (Model 4)

Cointegration Tests	Value	Z-Value	Probability Value
G_t	-12.370	-62.951	0.000
G_a	-5.369	1.789	0.963
P_t	-10.720	-2.880	0.002
P_a	-7.911	-4.100	0.000

The basic hypothesis of Westerlund panel cointegration tests suggests that there is no cointegration, since the probability value of all statistical values except G_a is less than 5%, the basic hypothesis is rejected and a long-term relationship between variables is found.

The *pooled mean group estimator* (PMGE) method is used to obtain the long-run coefficients after determining that the series are cointegrated, meaning that they are related in the long-run. The most important advantage of the PMGE method is that it predicts both the short- and the long-term parameters by constructing an error-correction model. The error-correction model to be constructed is shown in Equation 7.

$$\Delta Y_{it} = \emptyset_i Y_{i,t\text{-}1} + \beta_i^{'} X_{it} + \sum_{J=1}^{p\text{-}1} \lambda_{ij} \Delta Y_{i,t\text{-}j} + \sum_{j=0}^{q\text{-}1} \delta_{ij} \Delta X_{i,t\text{-}j} + \varepsilon_{it} \qquad (7)$$

Here, $\emptyset_i$ denotes the error correction parameter. Given that $\emptyset_i$ is significant and negative, the existence of a long-run relationship between Y_{it} and X_{it} is confirmed. PMGE estimation results are shown in Table 10, 11, 12 and 13.

Table 10: PMGE estimation results (Model 1)

Variables	Coefficients	Standard Errors	Probability Values
GLB	-0.167	0.057	0.004
Error-Correction Coefficient	-0.555	0.063	0.000

Table 11: PMGE estimation results (Model 2)

Variables	Coefficients	Standard Errors	Probability Values
ECGLB	-0.075	0.038	0.050
Error-Correction Coefficient	-0.550	0.052	0.000

Table 12: PMGE estimation results (Model 3)

Variables	Coefficients	Standard Errors	Probability Values
SOGLB	-0.029	0.037	0.000
Error-Correction Coefficient	-0.594	0.079	0.000

Table 13: PMGE estimation results (Model 4)

Variables	Coefficients	Standard Errors	Probability Values
POGLB	-0.010	0.0434	0.006
Error-Correction Coefficient	-0.575	0.060	0.000

According to the estimation results, the error-correction parameters in all four models are statistically significant since they are negative and their probability values do not exceed 5%. This parameter indicates the rate at which the short-term deviations offset in the next period due to non-stationarity of the series. Accordingly, deviations in one period would offset at approximately 55% in the following period for Models 1 and 2; at 59% and 57% for Model 3 and

Model 4, respectively. According to Table 10 that indicates the estimation results of long-term coefficients of Model 1 by which the impact of general globalization index on income inequality is determined, 1% increase in globalization reduces income inequality by 0.16%.

1% increase in economic globalization reduces income inequality by 0.07% according to Table 11 that indicates the estimation results of the long-term coefficients of Model 2 by which the impact of the economic globalization index on income inequality is determined. 1% increase in globalization reduces the income inequality by 0.02% according to Table 12 that indicates the estimation results of the long-term coefficients of Model 3 by which the impact of the social globalization index on income inequality is determined. Lastly, 1% increase in globalization reduces the income inequality by 0.01% according to Table 13 that indicates the estimation results of the long-run coefficients of Model 4 by which the impact of the political globalization index on income inequality is determined.

Conclusions

Globalization, which can be defined as a crucial concept within which mutual dependence amongst national economies has increased along with the increase in the flow of goods, and rapid dispersal of technology and information, migration, political and social interaction. Although it dates back to a much earlier era, globalization escalated its influence on the society's vital areas even more since the 1980s by mandating significant changes regarding economic, social, political and cultural aspects.

Despite the presence of many studies in the literature, it seems that there is no consensus on the positive and negative consequences of globalization on the world economies and their equality in distribution. Income inequality is a very important issue that must be addressed by both developing countries and developed countries. It is not appropriate to link income inequality solely to globalization, but the gap between the rich and the poor within the country has grown even larger, especially after the 1990s, while globalization and corresponding policies began to be intensified.

The debates on globalization-income inequality can be grouped under two headings. According to the neo-liberal economists advocating globalization, with trade openness and liberalization, economic growth of countries would increase more and earn more income, and this income would be distributed equally in the society, hence reducing poverty. The anti-globalist economists argue that the income generated by the globalization process would not be reflected in all segments of society and that the inequality would increase even further. Globalization can affect income inequality in five different ways: trade openness, financial openness, foreign direct investment, technological change, migration, and labor mobility. Upon taking these factors into consideration, both country-specific and inter-country studies investigating the impact of globalization on income inequality have achieved empirical results that support both views.

In the study, the relationship between globalization (general globalization and economic, social and political globalization) and income inequality in the sampling of 28 European countries is analyzed over the period 2005-2015. Four different models are utilized for the panel data analysis performed in the study. In the first model, the globalization index is used as an independent variable and the Gini coefficient, as a measure of income inequality, is examined. In the second, third and fourth models; the subcomponents of globalization, namely, economic, social and political globalization are used as independent variables, respectively, and their impacts on income inequality are tested. The error correction parameters in all four models are found to be negative and statistically significant. According to the estimation results; 1% increases in the levels of general globalization, economic globalization, social globalization and political globalization reduce income inequality by 0.16%, 0.07%, 0.02% and 0.01%, respectively.

Upon considering the applied studies that examine the impacts of globalization and its sub-components on income inequality; with or without categorizing the countries in terms of their development levels, it can be seen that the impacts on income inequality of variables used as subcomponents of globalization differ. Upon taking this situation into consideration, findings obtained in the study are in compliance with the following studies: Heshmati (2005), Berg and Nilsson (2010), Faustino and Vali (2011), Asteriou et al. (2014), Lim and McNelis (2014), and Buchari and Munir (2016).

Consequently, increasing levels of both globalization and subcomponents in selected European countries reduce income inequality. Thus, it can be concluded that the European countries on which certain analyses have been performed are considered to benefit from globalization and its sub-components at an important degree in general.

References

Acemoğlu, D. (2003). Cross-country inequality trends. *The Economic Journal*, 113(485), 121-149.

Agusalim, L., & Pohan, F. S. (2018). Trade openness effect on income inequality: Empirical evidence from Indonesia. *Signifikan: Jurnal Ilmu Ekonomi*, 7(1), 1-14.

Aizenman, J. (2002). Financial opening: Evidence and policy options. *NBER Working Paper*, 8900.

Arestis, P., & Caner, A. (2009). Financial liberalization and the geography of poverty. *Cambridge Journal of Regions, Economy and Society*, 2(2), 229-244.

Asteriou, D., Dimelis, S., & Moudatsou, A. (2014). Globalization and income inequality: A panel data econometric approach for the EU27 countries. *Economic Modelling*, 36, 592-599.

Bannister, G.J., & Thugge, K. (2001). International trade and poverty alleviation. *IMF Working Paper,* 54.

Barusman, A. F., & Barusman, M. Y. S. (2017). The impact of international trade on income inequality in the United States since 1970's. *European Research Studies*, 20(4A), 35-50.

Beck, T., Demirgüç-Kunt, A., & Levine, R. (2007). Finance, inequality and the poor. *J. Econ. Growth*, 12, 27-49.

Becker, G.S., & Tomes, N. (1979). An equilibrium theory of the distribution of income and intergenerational mobility. *Journal of Political Economy*, 87(6), 1153-1189.

Begg, I., Draxler, J., & Mortensen, J. (2007). Is social Europe fit for globalisation? A study on the social impact of globalisation in the European Union. *Centre for European Policy Studies (CEPS)*, European Commissions, Brussels.

Bergh, A., & Nilsson, T. (2010). Do liberalization and globalization increase income inequality?. *European Journal of Political Economy*, 26, 488-505.

Beyaert, A., & Camacho, M. (2008). TAR panel unit root tests and real convergence. *Review of Development Economics*, 12(3), 668-681.

Birdsall, N. (2006). The world is not flat: Inequality and injustice in our global economy. *UNU World Institute for Development Economics Research, WIDER Annual Lecture 9,* http://cgdev.org.488elwb02.blackmesh.com/doc/commentary/speeches/Birdsall_WIDERpaper.pdf (30.05.2018).

Breitung, J. (2005). A parametric approach to the estimation of cointegration vectors in panel data. *Econometric Reviews*, 24(2), 151-173.

Breuer, J. B., McNown, R., & Wallace, M. (2002). Series-specific unit root tests with panel data. *Oxford Bulletin of Economics and Statistics*, *64*(5), 527-546.

Bukhari, M., & Munir, K. (2016). Impact of globalization on income inequality in selected Asian countries. *MPRA Paper*, 74248.

Cabral, R., García-Díaz, R., & Mollick, A. V. (2016). Does globalization affect top income inequality?. *Journal of Policy Modeling*, 38(5), 916-940.

Charemza, W.W. & Deadman, D.F. (1997), New Directions in Econometric Practice: General to Specific Modelling, Cointegration and Vector Autoregression (Second Edition), Edward Elgar Publishing, Chelthenham, UK.

Choi, I. (2001). Unit root tests for panel data. *Journal of International Money and Finance*, 20(2), 249-272.

Cornia, G. A., & Kiiski, S. (2001). Trends in income distribution in the post-World War II period: Evidence and interpretation. *WIDER Discussion Papers*, 89, World Institute for Development Economics (UNU-WIDER).

Culpeper, R. (2005). Approaches to globalization and inequality within the international system. *Unrısd Programme On Overarchıng Concerns Paper*, 6, 1-34.

Dollar, D., & Kraay, A. (2004). Trade, growth, and poverty. *The Economic Journal*, 114, 22-49.

Dreher, A. (2006). Does globalization affect growth? Evidence from a new index of globalization. *Applied Economics*, *38*(10), 1091-1110.

Dreher, A., & Gaston, N. (2006). Has globalisation increased inequality?, *KOF Working Papers*, 140.

Faustino, H. C., & Vali, C. (2011). The effects of globalisation on OECD income inequality: A static and dynamic analysis. *DE Working Papers*, 12/2011/DE.

Foster, N., & Stehrer, R. (2010). The factor content of trade: A survey of the literatüre. *The Vienna Institute for International Economic Studies – wiiw*, http://foster-mcgregor.unu-merit.nl/downloads/FactorContentSurvey.pdf (15.04.2018).

Galindo, A., Micco, A., & Ordoñez, G. (2002). Financial liberalization and growth: Empirical evidence. In World Bank Conference, Financial Globalization: A Blessingor a Curse, http://siteresources.worldbank.org/INTFR/Resources/financial_liberalization_version23.pdf (15.04.2018).

Goldberg, P.K. & Pavcnik, N. (2007). Distributional effects of globalization in developing countries. *Journal of Economic Literature*, 45(1), 39-82.

Hadri, K. (2000). Testing for stationarity in heterogeneous panel data. *The Econometrics Journal*, 3(2), 148-161.

Harrison, A. (2007). Globalization and poverty: An introduction. Globalization and Poverty In. A. Harrison (Ed.). Chicago Univ. Press. Chicago, 1-30.

Helpman, E. (2016). Globalization and wage inequality. *NBER Working Paper*, 22944.

Heshmati, A. (2005). The relationship between income inequality, poverty and globalization. *WIDER Research Paper*, 37, World Institute for Development Economics (UNU-WIDER).

Hildreth, C. (1950). Combining cross-section data and time series. *Cowles Comission Discussion Paper*, 347.

Hsiao, C. (2007). Panel data analysis—advantages and challenges. *Test*, 16(1), 1-22. DOI 10.1007/s11749-007-0046-x

Huber, E., & Stephens, J. (2009). Globalization and inequality in Latin America and the Caribbean. In *Challenges of Globalization: Immigration, Social Welfare, Global Governance,* Routledge Taylor & Francis Group, 127-153.

Im, K. S., Pesaran, M. H., & Shin, Y. (2003). Testing for unit roots in heterogeneous panels. *Journal of Econometrics*, 115(1), 53-74.

Jaumotte, F., Lall, S., & Papageorgıou, C. (2013). Rising income inequality: Technology, or trade and finacial globalization. *IMF Economic Review*, 61(2), 271-309.

Kang-Kook, L. (2014). Globalization, income inequality and poverty: Theory and empirics. 社会システム研究, 109, http://www.ritsumei.ac.jp/acd/re/ssrc/result/memoirs/kiyou28/28-05.pdf (06.05.2018).

Keeley, B. (2015). Income inequality: The gap between rich and poor. Paris: OECD Insights, OECD Publishing.

Kuh, E. (1959). The validity of cross-sectionally estimated behavior equations in time series applications. *Econometrica: Journal of the Econometric Society*, 197-214.

Levin, A., Lin, C. F., & Chu, C. S. J. (2002). Unit root tests in panel data: asymptotic and finite-sample properties. *Journal of Econometrics*, 108(1), 1-24.

Lim, G., & McNelis, P. (2014). Income inequality, trade and financial openness. https://pdfs.semanticscholar.org/0368/7baf9bc579f2c7bd67daa66e22d023627b4e.pdf (04.05.2018).

Maddala, G. S., & Wu, S. (1999). A comparative study of unit root tests with panel data and a new simple test. *Oxford Bulletin of Economics and Statistics*, 61(S1), 631-652.

Mahler, V.A. (2004). Economic globalization, domestic politics, and income inequality in the developed countries: A cross-national study. *Comparative Political Studies*, 37(9), 1025-1053.

Manning, C. (1998). Does globalisation undermine labour standards? Lessons from East Asia. *Australian Journal of International Affairs*, 52(2), 133-147.

Menyah, K., Nazlioglu, S., & Wolde-Rufael, Y. (2014). Financial development, trade openness and economic growth in African countries: New insights from a panel causality approach. *Economic Modelling*, 37, 386-394.

Mihaylova, S. (2015). Foreign direct investment and income inequality in Central and Eastern Europe. *Theoretical & Applied Economics*, 22(2), 23-42.

Mills, M. (2009). Globalization and inequality. *European Sociological Review*, 25(1), 1-8.

O'Rourke, K.H. (2001). Globalization and inequality: Historical trends. *NBER Working Paper*, 8339.

Perugini, C., & Pompei, F. (2009). Technological change and income distribution in Europe. *International Labour Review*, 148(1-2), 123-148.

Pesaran, M. H. (2007). A simple panel unit root test in the presence of cross-section dependence. *Journal of Applied Econometrics*, 22(2), 265-312.

Pıketty, T. (2014). Yirmi birinci yüzyılda kapital (H. Koçak, Trans.) Türkiye İş Bankası Kültür Yayınları, İstanbul.

Rodriguez, F. & Rodrik, D. (2000). Trade policy and economic growth: A skeptic's guide to the cross-national evidence. https://drodrik.scholar.harvard.edu/files/dani-rodrik/files/trade-policy-economic-growth.pdf (02.0.6.2018).

Rodrik, D. (1998). Has globalization gone too far?. *Challenge*, 41(2), 81-94.

Shahbaz, M., Loganathan, N., Tiwari, A. K., & Sherafatian-Jahromi, R. (2015). Financial development and income inequality: Is there any financial Kuznets curve in Iran?. *Social Indicators Research*, 124(2), 357-382.

Shaw, E. S. (1973). Financial deeping in economic development. Cambridge: Harvard University Press.

Stiglitz, J.E. (2002). Globalization and its discontents. New York:W.W. Norton & Company.

Székely, M., & Sámano, C. (2012). Did trade openness affect income distribution in Latin America? Evidence for the years 1980-2010. *WIDER Working Paper*, 3

Stone, C., Trisi, D., Sherman, A. & Taylor, R. (2018). A guide to statistics on historical trends in income inequality. Washington: Center on Budget and Policy Priorities, https://www.cbpp.org/sites/default/files/atoms/files/11-28-11pov.pdf (01.06.2018).

Swamy, P. A. (1970). Efficient inference in a random coefficient regression model. *Econometrica: Journal of the Econometric Society*, 311-323.

Taylor, M. P., & Sarno, L. (1998). The behavior of real exchange rates during the post-Bretton Woods period. *Journal of international Economics*, 46(2), 281-312.

Tsai, P-L. (1995). Foreign direct investment and income inequality: Further evidence, *World Development*, 23(3), 469-483.

UN (2013a). Inequality matters. *Report of the World Social Situation*, http://www.un.org/esa/socdev/documents/reports/InequalityMatters.pdf (02.06.2018).

UNDP (2013b). Humanity divided: Confronting inequality in developing countries. http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Inclusive%20development/Humanity%20Divided/HumanityDivided_Full-Report.pdf (02.06.2018).

Wade, R.H. (2004). Is globalization reducing poverty and inequality? *World Development*, 32(4), 567-589.

Westerlund, J. (2007). Testing for error correction in panel data. *Oxford Bulletin of Economics and Statistics*, 69(6), 709-748.

World Bank (2002). Globalisation, growth and poverty: Building an inclusive world economy. *World Bank Policy Research Report*, 23591, Oxford University Press, http://documents.worldbank.org/curated/en/954071468778196576/pdf/multi0page.pdf (30.05.2018).

World Inequality Report (2018). Prepared by World Inequality Lab, https://wir2018.wid.world/files/download/wir2018-full-report-english.pdf (02.06.2018).

PART II.
CHAP 4.
2008 GLOBAL FINANCIAL CRISIS: THE END OF LAISSEZ FAIRE?

*Şükrü APAYDIN**

I. Introduction

Since the emergence of economics as a science, capitalist market economies have subjected to crises, and numerous financial and economic crises have experienced. However, the 1929 Great Depression and the crises in the 1970s and 1980s are particularly noteworthy among them. Because the 1929 Crisis, which is the first great crisis of the twentieth century, caused the collapse of Classical liberalism and the rise of Keynesian economics; the other crises led to the fall of Keynesian economics and the rise of Neoliberalism. In other words, every economic crisis caused a crisis in Economics and paved the way for a paradigm shift and crises have resulted in the replacement of market capitalism (the liberal form of capitalism) and state capitalism (the regulated form of capitalism).

Lastly, in the late summer of 2008, the financial crisis that emerged in subprime and mortgage credits markets in the USA turned into a global crisis that quickly affected the whole world. The questions discussed since 2008 can be listed as follows: Why do crises emerge and how do they spread? The crisis is spontaneous or whether the economic policies applied are wrong or the markets are failing, or whether the crisis is a systemic/structural character peculiar to capitalism? Various theoretical approaches have been put forward in the framework of these questions.

The purpose of this section is to assess whether the 2008 crisis will lead to a profound change in the field of economic policy, taking into account these theoretical analysis and solution proposals. In other words, as in the previous major crises, it is to discuss whether the 2008 Crisis will create a paradigm shift, that is, whether the crisis will cause the rise of Keynesian economics again or the emergence of a new paradigm.

In the study consisting of two sections, firstly the theories of the financial crisis have been explained. Later, these theories were compared and tried to determine their common aspects, differences, if any, deficiencies and thus the structural causes of the crisis. Finally, the study has completed after a general evaluation.

* Nevşehir Hacı Bektaş Veli University, Faculty of Economics and Administrative Sciences sukruapaydin@nevsehir.edu.tr

II. The Theoretical Causes of Financial Crises

There are many theories in the economics literature about the cause of crises and what triggered them and the mechanisms by which the crises spread. However, these theories based on the answers to the following questions: Does capitalist market economies have a stable structure? Are the reasons for the crises and imbalances experienced in the economies are internal or external factors? What is the role of monetary and financial variables in crisis?

According to the answers given to these questions, two basic economic traditions in the history of economic thought stand out. The first of these is the tradition of "Laissez-faire" which marked both the classical and neoliberal period of capitalism. Second, it is the Keynesian economic thought that is characterized by the understanding of regulatory or interventionist capitalism.

Undoubtedly, there are many theories in each approach. However, considering the constraints of the study, not all of them were included here. Mainly, crisis theories, which are more financial characteristics, are discussed here.

A- The Classical-Neoclasissical Economics or "Laissez Faire" Tradition

All the economists in this tradition (A. Smith, D. Ricardo, L. Walras, A. Marshall, M. Friedman, R. Lucas, Jr, E. Phelps, etc.) believe that the market economy has a self-regulating or a self-equilibrating structure. According to them, individuals behave in such a way to achieve maximum gains under the assumption of perfect information, and they are in this led by *an invisible hand* to promote social interests. In a sense, there is an 'admirable' harmony between individual and public interests. Because everyone pursues own gains, they serve the interests of society, although they do not have any intention of doing so. The mechanism that provides a stable structure to the market economy and ensures the economy to reach full employment equilibrium automatically is this harmony between individual and social interests. They assume that money is a simple means of exchange and because of this, all of the income earned spend. Therefore, there are no supply-demand imbalances. That is, supply creates own demand, and there cannot be a general overproduction crisis and the problem of unemployment in the economy. Moreover, all prices tend to return to equilibrium/natural ratios as long as markets operate under fair and free competition conditions (Blaug, 1978: 153-156; Polanyi, 1944: 70-72; Ricardo, 1817: 120, 231-238; Schumpeter, 1954: 738; Shaikh, 2009: 127-128; Smith, 1776: 47-54, 349-350).

The self-regulating market belief is also the basis of the Efficient Market Hypothesis developed in the 1970s. According to the hypothesis, the most fundamental functions of the financial markets are to distribute risks, to guide capital investments, and to disseminate information that the asset prices have. The competitive structure of capital markets serves to return to equilibrium values without any speculations when changes in asset prices occur, by providing full information about investments. Thus, capital markets provide optimal prices and efficient distribution of resources.

Despite this belief in the market economy, the observed periodic crises have made it inevitable for the economists in this tradition to develop crisis theory. However, in all theories developed, monetary/financial or real, psychological or technological external shocks have accepted as the cause of the crisis. Some of these shocks can be listed the wrong policies of governments, the expectations of the business world, credit fluctuations, changes in agricultural production, technological innovations and inventions, changes in tastes and preferences, legal regulations for foreign trade, irrational behavior of economic actors, etc.

B- John Stuart Mill's Speculative Bubbles

In this tradition, probably the earliest theory is John Stuart Mill's 'speculative bubbles' approach, in which ideas that pioneered modern financial crisis theories.[1]

According to Mill, economic expansion and speculative increases in some commodity prices are due to an external shock or road accident, such as obstructions to the importation or an increase in demand or the scarcity of a particular crop. When there is an increase in some commodity prices due to an external shock, there are the expectations that profits will rise among the dealers and a tendency to increase their stocks. This disposition tends in itself to produce the effect which it looks forward to - a rise of price; and other speculators are attracted are willing to believe that it will continue rising. These produce a further advance, and a rise of price is heightened by merely speculative purchases until it greatly exceeds what the original grounds will justify. The most remarkable point here is that there is a great credit facility. When prices are rising, and everybody apparently making a fortune, it is easy to obtain almost any amount of credit. In this process, even those who are not worth lending can easily borrow short-term and at any interest rate. After a while, it begins to be perceived that excessive price increases are speculative and price ceases to rise. The merchants, thinking it time to realize their gains, are anxious to sell and then the price begins to decline. They rush into the market to avoid a greater loss, and, few being willing to buy in a falling market, the price falls much more suddenly than it rose. The process accelerates because some company bankruptcies create a general lack of confidence. The uncertainty spreads quickly, and it becomes almost impossible to secure loan repayments. Companies that cannot pay their debts collapse and bankruptcies increase rapidly. All of this follows a panic and a commercial crisis. Panic causes the price to decline excessively, and the credits decrease significantly. The collapse spreads from the financial

1 In the classical liberalism period (1776-1870), one of the few economists pointed out the possibility of a crisis with Mill in this tradition was Malthus. According to him, the insufficiency of effective demand can lead to a general overproduction crisis. This situation is possible because capitalists have incomplete information or uncertainty (Quoted from Malthus, 1846, Dennis, 1997, V. I: 354-358). However, because Malthus' crisis assessment does not have a financial character, it is not discussed here separately.

sector to the rest of the economy and increases unemployment and cause impoverishment. There is a crisis of speculation: an external shock that started the expansion, a speculative mania that emerged with psychology rather than real events, the easy credit, the collapse of the financial system and then the real sector, and finally the crisis (Mill, 1885: 393-395; Roubini and Mihm, 2012: 50-51).

J. G. K. Wicksell's Cumulative Processes

In the neoclassical period, in general, crisis analysis was conducted in the context of business cycle theories, and many crises theories were developed based on Quantity Theory.[2] Among the most remarkable are Wicksell's theory, which explains boom-bust cycles through cumulative processes caused by changes in the credit amounts. The originality of Wicksell's analysis stems from the approach to the money and the emphasis on the role of banks in the system.

According to Wicksell, money is a means of the store of value as well as being a means of exchange and a unit of account, and part of the income in society has hoarded as money. In the communities where the credit system developed, banks make these hoardings. Thus, for a given interest rate, the banks automatically can generate the needed money and affect all prices through adjustments in the credit volume (Wicksell, 1907: 213-220; 1935: 6-14, 193-194).

According to Wicksell, there are two types of interest rates, natural (real) and market (monetary) interest rates. If these two ratios are equal, there will be no imbalance. Otherwise, there may be a disequilibrium process in which cumulative effects occur in the economy. For example, if the market interest rate is lower than the natural interest rate, there is an abnormal increase in the number of people who want to become an entrepreneur, and a cumulative investment process is triggered. As the expansion period starts an inflationary process and interest differences, the expansion and price increases continue as long as the Bank reserves are sufficient. However, as prices increase, the amount of money required for current consumption expenditures also increases and significant contractions in bank reserves arise. The decrease in the bank reserves causes the market interest rate to rising and the two interest rates to re-equalize. In the new equilibrium point, while interest rates are the same, the general level of prices are higher (Wicksell, 1898: 109-110, 111-117; 1935: 124-126, 196-197, 201-202).

Wicksell's analysis highlights the cumulative expansion and contraction processes that affect the economy as a whole. In this respect, it seems to be an appropriate framework for the disclosure

2 The "credit fluctuations" triggered by changes in expectations by Marshall, Pigou's the "industrial fluctuations" caused by external money and credit shocks which leading expectation mistakes, Hawtrey's "Pure Monetary Theory", von Hayek's "relative prices approach" and Schumpeter's "creative destruction process" are among the examples of monetary/financial theories. For more detailed information, see: Garrison, (1986); Haberler, (1946); Hagemann and Trautwein, (1998); Hawtrey, (1926); Hayek, (1933 and 1945); Marshall, (1890 and 1923); Pigou, (1927); Schumpeter, (1935 and 1939); Wolfe, (1956).

of financial crises. However, as Patinkin (1952) puts it, the analysis does not go beyond a detailed analysis of how an economy spontaneously achieves equilibrium after an initial irregularity.

I.Fisher's Debt-Deflation Theory

Another Neoclassical theory, which can be considered one of the pioneers of modern crisis theories, and which includes clues to the global financial crisis, has been proposed by Fisher. According to him, two bad actors who play a leading role in economic expansion and contraction are excessive borrowing and deflation. The most important reason for excessive borrowing is *the easy money*, even if the factors that increase profit expectations such as the establishment of new branches of industry and the development of new resources, the opening of new lands to production or the establishment of new markets. According to Fisher, if an investor's profit expectations are higher than lending costs, they are borrowed. However, as borrowing increases, a series of chained events occur: excessive borrowing leads to distress selling for repayment of debts, and distress selling leads to a contraction in the volume of loans and deposits, and this leads to the acceleration of distress selling again. These factors result in a decrease in the general level of prices and this fall in prices leads to a decline in the net value which accelerates the bankruptcy of firms. With price declines, the decrease in profit rates causes to concern that losses will increase even further and leads to a reduction in production, trade, and employment. The bankruptcy and unemployment increases lead to pessimism and loss of confidence and hoarding. These chained events result in nominal interest rates falling and real interest rates rising (Fisher, 1932: 341-349).

According to Fisher, the efforts of individuals to reduce their debts in this process lead to an increase in debt. The reason for this is that the efforts of barter the financial and real assets away further reduce the prices. Moreover, economic units withdraw their money from banks both to pay their debts and to take measures against the bank bankruptcies during deflation periods. This results in the contraction of deposits and credits, and thus a decrease in the total monetary supply. As the decline in money supply drives prices down further, financial asset prices will also decline, and the market value of banks and companies holding those assets will decrease. The result will be more sales and deflation; liquidity will fall further and, finally, the depression will deepen as pessimism increases more. Fisher recommends that the central bank (FED) intervene in the market to ensure that the 1929 crisis is not repeated or worse, as the lender of last resort, and that banks, corporations, and even individuals provide funding (Fisher, 1932, Roubini and Mihm, 2012).

In summary, the theories developed before the Great Depression are generally the theories taken into consideration within the framework of the Laissez-faire understanding and the quantity theory of money. Although changes that occur externally in monetary, financial or real factors have cyclical effects on the economy, these effects are temporary. The market regulates itself.

Nevertheless, there are still crises, the reason of this is the economic units that are irrationally over-borrowed, the banking system that allows or encourages excessive borrowing, and finally the regulatory authorities, or governments, that do not anticipate crises. Indeed, this perspective remains valid for the 2008 Global Crisis. For example, according to Robert Lucas, the reason for this crisis is the irrational behavior of investors. According to him, investors transferred their money to investment banking which is not regulated but which promises higher returns rather than deposit banking which is under control, and this result emerged. According to Phelps, the cause of the crisis is the blindness of regulatory authorities that did not prevent banks from making mistakes and banks.[3]

Keynesian Economics: The New and Post Keynesian Crisis Theories

The self-regulating market understanding of the classical tradition took its first major defeat in the 1929 crisis and left its place in Keynesian economics. The main idea in this tradition is that the market economy does not have a self-regulating mechanism and that the state must intervene in the economy. Undoubtedly the foundations of these ideas have thrown by J. M. Keynes and developed by their followers. Although Keynes has not introduced a theory of financial crisis, his analysis is considered as a revolution. Therefore, it would be useful to remember his views as outlined.

It is possible to find the first clues of Keynes' opinions in his famous work, The End of Laissez-Faire, written in 1926. In this study, Keynes rejects the most basic assumptions accepted in the classical tradition and points out the inevitability of state intervention. Let's listen to him:

Let us clear from the ground the metaphysical or general principles upon which, from time to time, *laissez-faire* has been founded. It is *not* true that individuals possess a prescriptive 'natural liberty' in their economic activities… The World is *not* so governed from above that private and social interest always coincide. It is *not* so managed here below that in practice they coincide. It is *not* a correct deduction from the Principles of Economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally *is* enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these… (Keynes, 1926:312).

According to him, many of the economic evils of our time are the fruits of risk, uncertainty, and ignorance. It is because particular individuals can take advantage of uncertainty and ignorance, and also big business is often a lottery and also because for the same reason big business is often a lottery. On the other hand, these factors also cause the unemployment, or the disappointment of business expectations, and of the impairment of production (Keynes, 1926: 317-318).

3 For more detailed information, see: Bahçe (2009/2010), Lucas, (2008), Phelps, (2008).

In a world under uncertainty conditions, three psychological laws give direction to the economy: the propensity to consume, the marginal efficiency of capital and liquidity preference. Thus, all of the economic decisions, such as consumption, investment, and money demand, are shaped according to the monetary income expectations of economic actors. While optimistic expectations characterize the expansion period of the economy, the contraction and the crisis periods begin with the reversal of expectations. According to him, to achieve full employment in the economy, the psychology of the investment markets needs to be improved, and such improvement will not realize under the Laissez-fair conditions. The state must take responsibility for organizing investments in person (Keynes, 1936: 246-247; 313-320).

Ideas of Keynes have taken as a reference by the post-Keynesian and New Keynesian economists for the explanation of financial crises in the following years. These theories can be summarized as follows.

Post Keynesian Economics: Minsky's Financial Fragility Hypothesis

Just like Keynes, Post-Keynesian economists argue that capitalism is inherently unstable. For them, the source of this is the internal functioning of the market economy, which has quite complex and volatile financial structures. Financial instability in the economy is explained based on three factors: uncertainty, the endogeneity of money supply and the hypothesis of financial fragility.

According to Post Keynesian economists, the notion of time is an irreversible and unrepeatable historical process, and the economy is moving from past to an uncertain future in this historical process. Therefore, economic decisions taken in any period depend on both past actions and expectations for the future. Expectations are quite unstable because they created under uncertainty conditions (Arestis, 1996: 117; Davidson, 1991: 131; Dow, 1986-87: 242-243).

In an economy under uncertainty conditions, money is not only a unit of account, a means of exchange and a store of value but also a means of financing used to purchase various investment instruments. Therefore, money is also demanded by finance motive, so that the finance motive leads to endogenously determination of the money supply regardless of the savings decisions[4] (Davidson, 1990; Keynes, 1937b, 1937c). Financing needs and credit demands increase if firms want to invest more as a result of optimistic expectations. By sharing optimistic expectations by banks, credit supply increase and the money supply is determined endogenously. Moreover, according to them, speculative euphoria is an inevitable outcome in capitalism, as speculators

4 In Post-Keynesian economics, there are two different views on the endogeneity of money supply: horizontalist and structuralist endogeneity. In the approach horizontalist, the money supply is perfectly elastic, and there is no relationship between the liquidity preference and the money supply. Whereas, in the approach structuralist endogeneity, the money supply is not perfectly elastic. Money supply may increase depending on liquidity preference, financial innovation, uncertainty, and profit expectations (Işık, 2004; Dow, 2006; Lavoie, 2006; Wray, 2007).

and banks ride the wave optimism by using the leverage and believe that become rich because they are smart (Arestis, 1996: 120-121; Davidson, 1965: 47-48; 1990: 11-19; Lavoie, 2015; Minsky, 1975: 70-73 1986: 236-237).

The endogeneity of money supply is extremely important for the stability of the financial system. Because, economic units can shift from hedge-type finance to speculative and Ponzi-type financing, and the fragility of the financial system increases. The more people in the economy prefer hedge finance, the more stable the system is and the more it tends to equilibrium. Otherwise, the system becomes more fragile (Minsky, 1986: 207-213). However, profit opportunities in the financial system cause the economy to function in a way that creates instability:

According to Minsky, optimistic expectations of rising profits during the expansion period lead to an increase in asset prices and investment demand and money demand for finance motive increase. Banks, even if the money supply fixed, improve credit supply by developing financial innovations, and thereby investments and profits increase. Expectations that profits will increase the further lead to raise the borrowing and interest rates and an increase in interest payments. The rise in interest rates reverses the expected returns from the investments, the risks undertaken and the supply price of the capital increase. In contrast, profit expectations, the demand for the capital, and investments reduce, thereby the revenues decrease and firms borrow more to pay their debts. In this way, in the process, speculative and Ponzi-type finance forms increase and the economy goes to the contraction period. This period is characterized by the increasing liquidity preference of both firms and banks. Therefore, the money supply reduces endogenously. A debt-deflation process arises because the debts increase more rapidly according to the incomes. The instability in financial markets and the collapse of confidence spread throughout the economy. The process results in a financial crisis (Minsky, 1975: 120-123; 1986: 90-112; Dow, 1986-87: 242-247).

Minsky did not realize the hypothesis to housing market analysis. Because, according to him, although housing and consumer loans led to an increase in debts, debt rising would not cause a downturn in the economy (Quoted by Minsky, 1982, Lavoie, 2015). However, his conceptual framework was used by McCulley to explain speculative bubbles in housing markets. According to him, there are three credit types in the housing market: Hedge, speculative and Ponzi mortgages.[5] These lead to an increase in the fragility of the system and to the emergency finan-

5 Hedge mortgages are the standard loans that amortized at the fixed interest rate over periods of 25 or 30 years. The principal plus interest payments are made every month for these loans, and the borrower's cash flows are sufficient to make these payments. Because of this, they are quite stable. Riskier unit of debt, the speculative mortgages, comes about when people are so confident in stably rising house prices. In this type of loan, also called interest-only mortgages, there is only interest payment. The borrower's cash flow is sufficient to pay the debt but does not amortize the principal. Thus, when the loan matures, it must be refinanced. These borrows can finance at the time of refinancing as long as interest rates do not increase, repayment conditions haven't tightened, and perhaps most importantly, the value of the house hasn't declined. Ponzi mortgages are loans that a borrower's cash flows are insufficient to pay even the full interest on a loan. These credits consist of negative-amortization mortgages, where interest rates are lower than the market rate during the first two years. The difference in interest payments adds to the principal due for the next 28 years (Lavoie, 2015; McCulley 2009).

cial crisis. Because, as housing prices increase and this increase is expected to continue, speculative and Ponzi mortgages are increasing. The reason for this is that a speculative borrower can take on a larger mortgage than a hedge borrower because he's paying only interest and thus the monthly payment is lower for him. Accordingly, as the marginal mortgage is taken down by a speculative borrower, it drives up home prices. While housing prices are rising, both house sales and loans are increasing because humans are not inherently value investors, but momentum investors. In other words, human beings tend to buy things when prices are rising rather than buying things when they are cheap and selling them when they are expensive. So, a Ponzi type game begins. As the housing prices rise, these mortgages, which are riskier, and the interest rates are increasing. This process continues as long as the expectations of the increase in housing prices are realized, and becomes a speculative mania (McCulley, 2009).

The two main factors that play a role in the emergence and spread of speculative manias are securitization and shadow banking. Securitization could transform all kinds of loans, liabilities and real estates, including mortgage loans, into assets that were tradable in the market. Thus, securitization enabled the creation of new credit channels along with shadow banking (Akçay and Güngen, 2016: 33-34). However, the increase in housing prices could not last forever. The slowdown of the rise in the housing prices and then the start of the falling has led to the default of the Ponzi units and later to the speculative units. With the debt crisis, the liquidity crisis in banks and financial sectors has turned into a financial crisis that has spread throughout the economy at the end of the process (Lavoie, 2015; McCulley, 2009).

New Keynesian Economics: Mishkin's Financial Instability Hypothesis

New Keynesians analyze financial crises within the framework of the main characteristics of financial markets. According to them, the principal function of financial markets is the collection and processing of information on valuable investment opportunities. However, the information structure on these markets is asymmetric, that is, one of the parties making the financial contract (typically the lender) has less information than the other (generally the borrower). The existence of asymmetric information is critical to assessing the value of financial assets of market participants. However, information flows are disrupted, and the evaluation process is impaired during periods of financial distress. The high-risk spreads and reluctance to purchase assets that are characteristic of such episodes are natural responses to the increased uncertainty resulting from the disruption of information. As a result, the existence of asymmetric information both distinguishes financial markets from traditional goods and services markets and potentially bears the possibility of collapsing (Mishkin, 1998 and 2009; Stiglitz, 1994).

According to New Keynesians, reasons the financial crises are the factors that trigger the adverse selection and moral hazard problems caused by asymmetric information, such as the financial innovations, the complexity and the mismanagement of this innovations, the weakness of underwriting standards in the subprime mortgage markets and false policies that encourage financial speculation (Bahçe, 2009-2010; Mishkin, 2009; Stiglitz, 2008; Roubini and Mihm, 2012).

For example, according to Mishkin (2009), financial innovations have the potential for making the system more efficient, but on the contrary, they ended up destructively. One of the main reasons for this is the complexity of subprime mortgage loans and structured credit products, which increases the difficulty of valuation of assets and creates a valuation risk. Moreover, the weakness of the underwriting standards in subprime credit markets, the housing price bubble has exacerbated. Because as long as housing prices continue to rise, default risk is low and risky debts have been encouraged, and housing demand has continued to increase. However, when the housing bubble burst, the rot in the system began to show itself.

The decline in housing prices led to many subprime borrowers finding that the housing price was below the mortgage amount, and defaults on mortgages began to rise. This situation caused a deterioration in the balance sheet of the banks and financial institutions, and this deterioration has led to a deleveraging process, which leads to a reduction in loans and consumption and investment expenditures, thereby reducing the volume of economic activity. The weakening of the economy and the decline in the housing demand led to a farther decrease in housing and related asset prices, which caused a further deterioration in financial institutions' balance and led to a further decline in lending. The increase in the valuation and macroeconomic risks led to rising credit spreads, and the financial crisis began (Mishkin, 2009).

In short, mismanagement of financial innovations caused the formation and burst of speculative bubbles in housing prices, which deterioration the balance sheets of the banks and financial institutions and created the financial crisis.

III. The Structural Causes of Financial Crises

In this section, first, the different financial crises theories are compared. Thus, the common aspects or differences of these theories were determined. Secondly, the structural causes of financial the crises have discussed.

Although the crisis described here are based on different paradigms, these theories have some common characteristics.

First, all theories have structured in the form of a business cycle theory in general. In other words, the existence of a boom-bust cycle and the tendency of the system to create instability have presented. However, the reason for this is not queried deeply in any theory.

The second point in connection with this is that in all theories, the factors that trigger economic expansion are considered to be external. For example, psychological, real or monetary factors such as any change affecting expectations positively, war, uncertainty, innovation, unexpected increases in demand, increase in the supply of money by the Central Bank play a role in the transition of the economy to the stage of expansion. Therefore, in the absence of such factors, it is assumed that no imbalance will emerge, either explicitly or implicitly. But, for example, the question of why technological innovation or invention made remains unanswered.

Third, it has claimed that the financial crisis emerged as a result of an unsustainable expansion. At this stage, excessive price increases in all markets, namely speculative bubbles, result in excessive investment and inflationary developments. In spite of this, no model has focused on why these bubbles emerge.

As a result, according to the theories discussed here, the causes of financial crises are the irrational behaviors of economic actors, the wrong policies of policymakers, market failures or the fragility of financial markets. Therefore, it is this perspective that shapes the proposals for solutions. Indeed, the difference between Classical and Keynesian Economics schools also arises here.

As classical economists have self-regulating market understanding, they claim that crises will not happen unless economic actors act irrationally and governments follow false policies. So, according to them, the crisis is not structural but is the human product. Keynesian economists argue that markets cannot produce optimal results, and therefore state intervention is inevitable. The point that draws attention here is that the market and the state have treated as two separate structures in both traditions. Accordingly, the main subject of discussion is nothing more than to decide who will undertake the task of regulating the economy.

However, no matter who assumes the task of regulating the economy, capitalism has consistently faced crises and continues to remain. Therefore, it is not possible to avoid crises whether economic actors are rational or not, whether policymakers implement or not wrong policies, or whether state regulations are effectively regulated or not. The main reason for this is that money in a capitalist economy performs more functions than is predicted in theory. This situation is especially meaningful in the context of the 2008 Crisis. As Yeldan (2010: 17) stated, the crisis coincided with the financialisation or financial globalization period in which money does not depend on gold or any precious metal standard, where fictitious values dominate. The process of financialisation or intensifying investments in the financial markets is, in essence, a reevaluation of the previously created value. In other words, a new added value has not produced in the financial markets, and the added value created in agriculture and industry sectors has reevaluated. This process necessitates a review of the fundamental characteristics of money and capital once.

First of all, money has a different meaning for each economic unit. For example, for workers, money is mostly the only source of income, and they need money to meet their basic needs. So money is mainly a means of exchange for them. The same thing does not valid when it comes to companies and banks.

For companies, money serves both as a means of exchange and as a capital used in the purchase of production factors. Hence, money is needed to start and continue the production process. If the amount of money at the beginning of the process does not increase at the end of the process, the expansion of production may not be possible, and economic crises may be experienced.

The situation for banking and finance is purely different. The only commodity traded here is the money. Money is both consumer goods and capital. In other words, money has both use value and exchange value. The necessity of consistently generating more money is the reason for the existence of these institutions. To make more profit, banks and other financial institutions try to sell much money (i.e., lending), which is very rational in their behalf. On the other hand, it is also rational behavior for banks to reduce their credit supply due to any risk perception, as their interests require it. In short, the demand for money as a capital implies that it has the potential to create a crisis.

The potential of money capital to create crisis becomes even more apparent under the conditions of financial liberalization. In this period, money-capital owners or managers, instead of making productive investments, are focused on areas where arbitrage gains will provide, or in the absence of speculative earnings, they prefer to remain liquid. In this way, money as capital makes itself a "thing" and starts to see itself as a goal. As a result, monetary and real accumulation break away from each other. In the process, money capital is increasingly focused on the financing of debt relations both at national and international levels and transforms into fictitious capital. While money is a fictitious capital, speculative bubbles are now an ordinary state, and boom-bust cycles have periodically repeated (Arın, 2003; Bonefeld, 1996; Köse and Öncü, 2003)

In short, the real reason for the 2008 crisis is, as Yeldan (2010) emphasized, the financial form of money-capital, or in other words, the phenomenon of financialisation. At this point, financialisation encourages households to behave like businesses, businesses to act like banks, and banks to behave like hedge funds (Blackburn, 2008:100). Asset-backed securities such as collateralized mortgage obligations (CMOs), collateralized debt obligations (CDOs), collateralized loan obligations (CLOs), securitization and shadow banking are some of the most typical examples of financialisation. In a structure where even workers whose incomes are slightly above the level of livelihood have chosen to assess their savings in risky but high-yield investment instruments, the possibilities of the crisis will continue to exist.

IV. Conclusion: The End of Laissez Faire?

Without understanding the economic thoughts behind the crises, it is not easy to explain why the crises emerge and what the way of solutions can be. For this reason, this study, which examined the 2008 crisis, was conducted at a theoretical level. In this study, the theories of crisis emerged in mainstream economic thought were analyzed and discussed whether there was a post-crisis paradigm change.

The first result from the analysis, although not explicitly expressed in some theories, is that the financial system can determine the supply of money endogenously. The second result is that the market economy has not self-regulated structure. Despite the Laissez-faire ideology, the market economy fails to produce optimal results. Therefore, the state must intervene in the economy and perform its regulatory role to resolve the economic crisis. Indeed, in the 2008 Crisis, the economic policies implemented, the expropriations and legal regulations, the creation of new regulatory bodies, whether liberal or not, have been seen as a necessity by all economists.

Nevertheless, the global crisis did not lead to radical changes in the economic paradigm. Neoliberal capitalism lives in all institutions and rules. Although it is a little shaken, financial globalization stands with all its elements. Indeed, financial capital has emerged stronger than this process. As Saad-Filho (2011:249) pointed out, it is not possible to talk about the crisis *of* neoliberalism because it has not emerged as a theoretical alternative. However, it can say that there was a crisis *in* neoliberalism. The measures taken to get out of the crisis have led to a significant increase in budget deficits. Moreover, the recent trade wars can see as a sign that the crisis has not been overcome yet. Finally, the ongoing tensions between global power blocks also support this.

As a result, the establishment of an economic system that does not create a crisis periodically depends on the prevention of money-making. Otherwise, the periodic crises of capitalism, in which everything becomes a commodity, will continue for a long time.

References

Akçay, Ü., & Güngen, A. R. (2016). *Finansallaşma, Borç Krizi ve Çöküş.* Ankara: Nota Bene Yay.

Arın, T. (2003). Türkiye'de Mali Küreselleşme ve Mali Birikim ile Reel Birikimin Birbirinden Kopması. In A. H. Köse, F. Şenses, & E. Yeldan (Eds.), *İktisat Üzerine Yazılar I - Küresel Düzen: Birikim, Devlet ve Sınıflar: Korkut Boratav'a Armağan* (93-141). İstanbul: İletişim Yayınları.

Arestis, P. (1996). Post Keynesian Economics: Towards Coherence. *Cambridge Journal of Economics*(20), 111-135.

Bahçe, S. (2009/2010). İktisadi Kriz ve İktisatta Kriz. *Eğitim, Bilim ve Toplum, 8*(29), 9-38.

Blackburn, R. (2008). The Subprime Crisis. *New Left Review, 50*, 63-108.

Blaug, M. (1978). *Economic Theory in Retrospect.* Cambridge, USA: Cambridge University Press.

Bonefeld, W. (1996). Money, Equality and Exploitation: An Interpretation of Marx's Treatment of Money. In W. Bonefeld, & J. Holloway (Eds.), *Global Capital, National State and the Politics of Money* (178-209). London: Macmillan Press Ltd.

Bordo, M. D. (2008). *An Historical Perspective On The Crisis OF 2007-2008.* NBER Working Paper. No: 14569. http://www.nber.org/papers/w14569

Davidson, P. (1965). Keynes's Finance Motive. *Oxford Economic Papers, 17*(1), 47-65.

Davidson, P. (1990). Keynes and Money. In R. Hill (Eds.), *Keynes, Money and Monetarism* (2-26). New York, USA: St. Martin's Press.

Davidson, P. (1991). Is the Probability Theory Relevant for Uncertainty? A Post Keynesian Perspective. *The Journal of Economic Perspectives, 5*(1), 129-143.

Davidson, P. (1998). The Case for Regulating International Capital Flows. *Social Market Foundation Seminar on Regulation Capital Movements.* London.

Dennis, H. (1997). *Ekonomik Doktrinler Tarihi.* (A. Tokatlı, Trans.) İstanbul: Sosyal Yayınlar.

Dow, S. (1986-87). Post Keynesian Monetary Theory for an Open Economy. *Journal of Post Keynesian Economics, IX*(2), 237-257.

Dow, S. C. (2006). Endogenous Money: Structuralist. In P. Arestis, & M. Sawyer, *A Handbook of Alternative Monetary Economics* (35-51). UK: Edward Elgar Pub. Ltd.

Fisher, I. (1932). *Booms and Depressions: Some First Principles.* New York, USA: Adelphi Co.

Garrison, R. W. (1986). Hayekian Trade Cycle Theory: A Reappraisal. *Cato Journal, 6*(2).

Haberler, G. (1946). *Prosperity and Depression.* New York, USA: United Nations Lake Success,.

Hagemann, H., & Trautwein, H. M. (1998). Cantillon and Ricardo Effects: Hayek's Contributions to Business Cycle Theory. *The European Journal of the History of Economic Thought, 5*(2), 292-316.

Hawtrey, R. G. (1926[1951]). The Trade Cycle. In *Readings in Business Cycle Theory* (330-349). Illinois, USA: Richard D. Irwin, Inc.

Hayek, F. A. (1933). *Monetary Theory and the Trade Cycle.* New York, USA: Sentry Press.

Hayek, F. A. (1945). The Use of Knowledge in Society. *The American Economic Review, 35*(4), 519-530.

Işık, S. (2004). *Para, Finans ve Kriz.* Ankara: Akçağ Yay.

Köse, A. H., & Öncü, A. (2003). İktisadın Piyasası, Kapitalizmin İktisadı. In A. H. Köse, F. Şenses, & E. Yeldan (Eds.), *İktisat Üzerine Yazılar I - Küresel Düzen: Birikim, Devlet ve Sınıflar: Korkut Boratav'a Armağan* (13-41). İstanbul: İletişim Yay.

Keynes, J. M. (1926[1963]). The End of Laissez Faire. In *Essays in Persuasion* (312-322). New York: W. W. Norton and Company.

Keynes, J. M. (1936[1939]). *The General Theory of Employment, Interest and Money.* London: Macmillan and Co., Ltd.

Kindleberger, C. (2007). *Cinnet, Panik ve Çöküş: Mali Krizler Tarihi.* (H. Tunalı, Trans.) İstanbul: İstanbul Bilgi Üniversitesi.

Lavoie, M. (2006). Endogenous Money: Accommodationist. In P. Arestis, & M. Sawyer (Eds.), *A Handbook of Alternative Monetary Economics* (1-34). UK: Edward Elgar Pub. Ltd.

Lavoie, M. (2015). What post-Keynesian economics has brought to an understanding of the Global Financial Crisis. *Progressive Economics Forum.* Canadian Economics Association. https://www.boeckler.de/pdf/v_2015_10_24_lavoie.pdf.

Lucas, R. J. (2008). *Current Financial Crisis.* http://faculty.chicagobooth.edu/brian.barry/igm/ditella.pdf.

Malthus, T. R. (1846[1951]). *Principles of Political Economy.* New York: New Ed.

Marshall, A. (1890[1920]). *Principles of Economics: an Introductory Volume.* London: MacMillan and Co.

Marshall, A. (1923). *Money, Credit and Commerce.* London: MacMillan and Co.

McCulley, P. A. (2009). *The Shadow Banking System and Hyman Minsky's Economic Journey.* https://www.pimco.com/en-us/insights/economic-and-market-commentary/global-central-bank-focus/the-shadow-banking-system-and-hyman-minskys-economic-journey.

Mill, J. S. (1885). *Principles Of Political Economy.* New York: D. Appleton and Company.

Minsky, H. P. (1975). *John Maynard Keynes.* USA: Columbia University Press.

Minsky, H. P. (1986[2013]). *İstikrarsız Bir Ekonominin İstikrarı.* (O. Esen, Trans.) Ankara: Efil Yayınevi.

Mishkin, F. S. (1998). *International Capital Mobility, Financial Volatility and Financial Instability.* NBER Working Paper: http://www.nber.org/papers/w6390.

Mishkin, F. S. (2009). *Is Monetary Policy Effective During Financial Crises?* NBER Working Paper: http://www.nber.org/papers/w14678.

Mitchell, W. C. (1951). Business Cycles. AEA, In *Readings in Business Cycle Theory* (43-60). Homewood, Illinois: Richard D. Irwin, Inc.

Patinkin, D. (1952). Wicksell's Cumulative Process. *The Economic Journal, 62*(248), 835-847.

Phelps, E. S. (2008). What Has Gone Wrong up until Now. (Spiegel, November 12).

Pigou, A. C. (1927). *Industrial Fluctuations.* London: MacMillan.

Polanyi, K. (1944[2001]). *Great Transformation The Political and Economic Origins of Our Time.* Boston, USA: Beacon Press.

Ricardo, D. (1817[2007]). *Ekonomi Politiğin ve Vergilendirmenin İlkeleri.* (T. Ertan, Trans.) İstanbul: Belge Yay.

Roubini, N. & Mihm, S. (2012). *Kriz Ekonomisi: Dünya Ekonomisinin Çöküşü ve Geleceği.* (I. Tezcan, Trans.) İstanbul: Pegasus Yay.

Saad-Filho, A. (2011). Crisis In Neoliberalism or Crisis of Neoliberalism. *Socialist Register, 47*(47), 242-259.

Schumpeter, J. A. (1935). The Analysis of Economic Change. *The Review of Economics and Statistics, 17*(4), 2-10.

Schumpeter, J. A. (1939). *Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process.* New York: McGraw-Hill Book Company.

Schumpeter, J. A. (1954[1994]). *History of Economic Analysis.* London: Routledge.

Shaikh, A. (2009). Bunalım Kuramlarının Tarihine Giriş. In N. Satlıgan, & S. Savran, *Dünya Kapitalizminin Krizi* (12-171). İstanbul: Belge Yay. .

Smith, A. (1176[2007]). *An Inquiry into the Nature and Causes of Wealth of Nations.* Metalibri: http://metalibri.uncubadora.fapesp.br.

Stiglitz, J. E. (1994). The Role of the State in Financial Markets. In *Proceedings of the World Bank Annual Conferenceon Development Economics* (19-52). Washington, D.C.: The World Bank.

Stiglitz, J. E. (2008). *The Financial Crisis of 2007-2008 and its Macroeconomic Consequences.* Columbia University Academic Commons: https://doi.org/10.7916/D8QZ2HSG.

Wicksell, K. (1898[1962]). *Interest and Prices: A Study of the Causes Regulating the Value of Money,.* New York: Royal Economic Society.

Wicksell, K. (1907). The Influence of the Rate of Interest on Prices. *The Economic Journal, 17*(66), 213-220.

Wicksell, K. (1935[1978]). *Lectures on Political Economy* (V. 1). New Jersey, Fairfield: Augustus M. Kelley Pub.

Wolfe, J. N. (1956). Marshall and the Trade Cycle. *Oxford Economic Papers, 8*(1), 90-91.

Wray, L. (2007). Endogenous Money: Structuralist and Horizontalist. *The Levy Economics Institute of Bard College Working Paper*(512).

Yeldan, E. (2010). Büyük Durgunluğun Öğrettikleri. *İktisat ve Toplum*(1), 16-24.

PART II.

CHAP 5.

THE COMPLEXITY OF THE RELATIONSHIP BETWEEN GLOBALIZATION AND POVERTY

*Ezgi SEÇKİNER BİNGÖL**

Introduction

As globalization has a multiple definition and poverty presents different types, the relationship between globalization and poverty is complex. In the 1999 United Nations Human Development Report (UNDP, 1999), the complexity of the term globalization manifests itself as it is associated with the international integration of culture, technology, labor standards, governance, media, and marginalization. In Giddens' definition; "globalization is the intensification of worldwide social relations linking distant localities in such a way that local happenings are shaped by events occurring many thousands of miles away and vice versa". Giddens defines four dimensions of globalization: world capitalist economy, the nation-state system, world military order and industrial development (Giddens, 1991: 70-78). In other definition, globalization involves economic integration; the transfer of policies across borders; the transmission of knowledge; cultural stability; the reproduction, relations, and discourses of power (Al-Rodhan, 2006).

It is difficult to say that although poverty is a well-known and almost as old as human history, it has a clear definition. The term poverty is also complex. Poverty is a socio-economic problem involving very different perceptions in variable social conditions. Definitions are rather more varied, varying in value systems, social structures, different economic systems, and time, with different views (Seçkiner, 2015: 22-23). Dada summarizes main poverty definitions as i) definitions mentioned on the basis of material need: basic needs and services, ii) definitions mentioned on the basis of economic conditions: capital, goods, money, resources - especially natural resources, iii) definitions mentioned on the basis of social relations: social exclusion, addiction, normal living in society (Dada, 2005: 10).

It is controversial whether globalization and poverty have a linear or simple relationship. Although some indices have been developed such as KOF[1] which measures the economic, political and social dimensions of globalization (Dreher, 2006), it still is contentious that globalization is empirically verifiable and measurable. Poverty, on the other hand, is mostly confused with the concept of "inequality", and there is a tension between studies that take the absolute

* Assistant Professor at Niğde Ömer Halisdemir University, eseckinerbingol@ohu.edu.tr

1 KOF is an acronym for the German word "Konjunkturforschungsstelle" meaning: Economic cycle research institute.

poverty into account and studies that interpret it in a broad sense. Therefore, what dimensions of globalization will be addressed and how poverty is defined constitutes the most problematic part of such studies.

Over the last quarter of a century, there has been a considerable research in the literature to show that the globalization movement has particularly reduced absolute poverty by providing economic liberalization and political emancipation in the countries (See: World Bank, 2013, Bergh and Nilsson, 2014, Stiglitz, 2001, Dollar and Kraay, 2004, Pavcnik, 2009, Yanar and Shahbaz, 2013). On the other side, there are studies that claim that globalization does not mean reducing absolute poverty, poverty continues in different forms and deepening, poverty line differs from country to country and inequality between countries increases (Wade, 2004, Şenses, 2004, Bhagwati and Others 2002, Milanovic and Squire, 2006, Rodriguez and Rodrik, 2000, Santarelli and Figini, 2002).

The literature on globalization and poverty is also inseparable with the ideological dimensions. There is a liberal dimension of globalization and a social dimension of poverty. Discussing this relationship on a scientific base is not easy without considering its ideological backgrounds. Liberals argue that global economic order is good for the problem of poverty, while others who see poverty as a deep inequality problem, argue that globalization is not good for poverty. On the other hand, there are skeptics who approach the issue with a completely skeptical eye rejecting the evidence of economic and social globalization.

In this study, the current research examining the relationship between globalization and poverty has been evaluated. The work in this area can be summarized under three headings as roughly "pro-globalization", "anti-globalization" and “skeptic approaches.

1. Pro-Globalization Approaches

Many studies examining the relationship between globalization and poverty have drawn attention to the negative impact of globalization, especially on absolute poverty (Bhagwati and Srinivasan 2002, Dollar and Kraay 2004, Potrafke 2015, Bergh and Nilsson, 2014). These all confirm globalization's negative impact on poverty that globalization diminishes inequality (Bergh and Nilsson, 2014), it reduces poverty by increasing international trade (Pavcnik, 2009), globalization provides development (Harrison, 2007), it allows foreign companies to help poor countries, it reduces poverty in institutionally weak countries (Bergh, Mirkina, and Nilsson, 2016).

Empirical research on poverty and globalization suggest that many other factors are related to this and should be taken into account. These factors are: “income distribution”, “poor differences between “educated poor” and “uneducated poor”; “democratic and non-democratic country differences”, “state intervention”, “political globalization “and “managerial globalization” rather than “economic globalization”, “import shares” and “removal of the social protection”.

Yanar and Shahbaz (2013:69), found that globalization reduces "income distribution inequality" and the subcomponents of globalization have reached the poverty reduction even in different definitions of poverty. The impact of economic and social globalization on income distribution is also negative. Therefore, as the level of economic and social globalization increases in developing countries, income inequality decreases. So globalization helps to decrease income inequality and poverty.

According to Bergh and Nilsson (2014), fewer trade restrictions and larger information flows are robustly associated with lower poverty levels. A likely explanation for the importance of trade restrictions is that these matter for import prices. On the other hand, as Harrison (2007:5) stated, measures of export activity and foreign investment are generally associated with poverty reduction, while removal of protection or import shares are frequently associated with rising poverty.

Those who argue that globalization is in a negative relationship with poverty claim that globalization has achieved low levels of poverty and that foreign companies have invested in poor countries, leading to low poverty levels, reducing inequality and encouraging economic growth (Stiglitz, 2001).

Martell (2010), noted that the retention of trade tariffs would allow competitive markets to emerge, thus allowing the poor countries to export their products and thus the economic development of these countries. Economic growth creates new business opportunities as well, which increase the poor's chances of development (Held and McGrew, 2007). On the other hand, Dollar and Kraay (2004), reviews the evidence on; i) the linkages between trade and growth, and ii) the relationship between growth and poverty. Kraay cites several new studies that find that increasing openness to trade is associated with higher growth. Kraay also points to his own work showing that growth is good for the poor, and concludes that since trade enhances growth, which in turn reduces poverty, then globalization is good for the poor.

Friedman (2005), argues that high level of information sharing with globalization, which works in the economic activities of poor countries and Stiglitz (2001), indicate that countries being open to external assistance, poor countries with problems such as AIDS and education can benefit from development programs and external assistance.

According to Harrison (2007: 3-5), the poor are more likely to share in the gains from globalization when there are complementary policies in place. The poor in countries with an abundance of unskilled labor does not always gain from trade reform. Export growth and incoming foreign investment reduce poverty. Poverty has fallen in regions where exports or foreign investment is growing. On the other side, financial crises are costly to the poor. Therefore, globalization produces both winners and losers among the poor.

Bergh, Mirkina, and Nilsson (2016: 708) found that globalization is a mitigating effect of poverty when institutions are weak, in their work, which examines the impact of globalization on poverty on an institutional basis. They have come to the conclusion that increasing social globalization reduces poverty more when corruption is high and democratic accountability is low.

Pavcnik (2009), noted in his study that the effect of international trade on absolute poverty is negative but affects inequality between educated and uneducated people positively. While educated people get more out of globalization, uneducated people are more poverty-stricken.

Hayaloğlu et al. (2015: 120), concluded that high-income countries that have completed their economic and institutional infrastructure have the main benefit from globalization, produce high value-added products based on technology, and have a qualified workforce. According to the results obtained; the effects of globalization on economic growth vary according to the development level of the countries. This result does not change when the subcomponents of the globalization indices are used.

Garrett (2001); Dollar and Kraay (2004), argue that the economic effects of globalization vary among countries and that trade liberalization, particularly in developing countries, increases economic growth and reduces poverty.

According to Rao and Vadlamannati (2011), the relationship between globalization and economic growth in 21 low-income African countries show a small but significantly positive permanent growth effects. Similarly, Rao et al. (2011), found that in countries with a high level of globalization, the effect of globalization on economic growth is higher.

2. Critical Approaches

Some critical approaches are mainly based on the World Bank's poverty reduction estimates. They tend to see the poverty issue one step ahead of absolute poverty contrary to the World Bank's view. According to the World Bank's poverty report (2013), there has been marked progress on reducing absolute poverty over the past decades. According to the most recent estimates, in 2013, 10.7 percent of the world's population lived on less than US$1.90 a day, that's down from 35 percent in 1990.

Wade (2004:581) claim that; "We cannot be confident that poverty has probably fallen over the past two decades or so, because the World Bank's poverty numbers are subject to a large margin of error, are probably biased downward." Furthermore, Santarelli and Figini (2002: 97), indicate that relative and absolute poverty are two separate concepts with different meanings and measurement procedures. Absolute poverty with only itself could not be an evidence to show poverty has decreased. For instance, trade openness does not significantly affect relative poverty, while financial openness tends to be linked with higher relative poverty.

The measurement issue of poverty is mostly highlighted by the critics and the World Bank's published scores are questioned. Should poverty be measured as a percentage or should the number of people living on the poverty line be measured? One area of disagreement in poverty measurement is whether poverty should be measured as the percentage of individuals who are poor (the incidence) or the absolute number of people who are poor. While the incidence of poverty has been falling over the last twenty years, the change in the absolute numbers of poor individuals depends on the poverty line chosen (Santarelli and Figini, 2002).

As Harrison stated (2007: 6); “the number of individuals living on less than one dollar a day declined in the 1980s and 1990s, while the number of individuals living on between one and two dollars a day did not.” Critics of globalization frequently prefer to use incidence of people who are poor, while globalization’s supporters prefer to use the absolute number of poverty. This diversity of opinion is one of the reasons that there is so much disagreement about whether world poverty has been falling during the period of globalization. Aisibett (2017:1), summarizes the critics of globalization that tend to be concerned about non-monetary as well as monetary dimensions of poverty, and more concerned about the total number of poor than the incidence of poverty. In regard to inequality, critics tend to refer more to changes in absolute inequality, and income polarization, rather than the inequality measures preferred by economists.

Critical approaches on the other hand, highlight the negative aspects of globalization in terms of relative poverty and inequality. Income inequality is the other factor that should be considered. Wade (2004: 582), claims that “the liberal argument is less concerned about widening inequality between countries than it is about inequality within countries because we cannot do much to lessen international inequality directly. However, inequalities between countries should be focused - not on the country.”

According to Milanovic (2006: 1), there are several kinds of inequality; people can be unequal in terms of their access to health, power, security or income. Even when we focus exclusively on income, inequality can be measured according to different concepts. One needs to distinguish inequality between countries measured through the differences observed in the income of each of those countries; from inequality between countries, measured through the differences observed in their mean incomes, weighted by their population; and from inequality between the world individuals, regardless of the country they live in (Milanovic, 2006: 1).

On the other side, Milanovic and Squire (2007), claim that inter-country integration reduces trade inequality especially in developed countries and developing provinces. They found that when they measured their effects on salaries between inter-industry and labor markets, they came to the conclusion that globalization led to inequalities in average wages and inequality in specific poor countries.

One part, however, acknowledges the existence of the global grower, while the global growing indicates that the poor have not received the necessary share. They suggest that the growth process resulting from globalization is not a process felt by all segments of the society and that the disparity in the distribution will increase poverty by further increasing injustice in the social income distribution (Rodriguez and Rodrik, 2000: 10). Bhagwati et al. (2002) claim that there are different perceptions between the countries regarding poverty and it is pointed out that poverty in a rich country and poverty in a poor country are different things.

According to the UN-sponsored report of the World Commission on the Social Dimension of Globalization, "Global markets have grown rapidly without the parallel development of economic and social institutions necessary for their smooth and effective functioning." "There a deep-seated and persistent imbalance in the current workings of the world economy, which are ethically unacceptable and politically unsustainable". The report says that only a dozen developing countries have benefited from the increasing integration of the world economy (Schifferes, 2004).

According to Şenses (2004: 17), indicators of income distribution and poverty, although it differs according to the institutions, the distribution of income in the period of neoliberal globalization has been deteriorated both in the country groups and in the countries and the poverty has increased to worrisome dimensions. The lowest-paid child in the population share of total revenue or consumption in Brazil and Botswana was 2.2%, in Honduras and 2.0% in South Africa and 1.1% in Sierra Leone.

Poverty, on the other hand, is seen in many developing countries. Poverty is %63 in Nigeria, %77.61 in Bangladesh, %41.6 in Indonesia and %22 in India. The poorest country in the world is Democratic Congo Republic; the poverty rate is %90 (World Bank API, 2011).

Mok (2002: 92), claim that there is "casino capitalism" whose evidence showed itself in the financial crisis of Europe in 1991, Mexico and Latin America in 1994, and more recently the Asian Financial Crisis in 1997. In the casino capitalism, there is the speculation and volatility of the stock market which have been linked to a unidirectional flow of income to investors and bankers who "orchestrate the global process rather than to the workers and the poor who produce the wealth."

The poverty alleviation strategies are another issue that comes with globalization process. Policies to combat poverty with globalization brought along a process of poverty management. Along with the changes in the management paradigm since the 1980s, the problem of poverty has been involved in a process governed by social services, social assistance programs, social projects and philanthropy activities, developed exclusively for poor citizens rather than protective social policies covering all citizens. Since the 1990s, the problem of poverty has interfered with the state's minimal prosperity understanding and fragmented managerial actions based on marketplace solutions. Countries' current practices for the problem of poverty are mainly based on social assistance, social services, social projects; and international poverty alleviating programs. It seems that in poverty reduction; mitigating and reducing practices are more important than preventing and protecting mechanisms. This is the name of new poverty management (Seçkiner, 2017: 147).

3. Skeptic Approaches

The skeptical approaches to the concept of globalization and its relation to poverty, although divided among different groups within themselves, mainly discuss the practical presence and effects of globalization, and present a negative attitude toward globalization.

The main arguments of the skeptics are that globalization is a regime full of oppression, exploitation, and injustice, brought by a process that increases inequality, instead of a homogeneous global culture. Thus, skeptics view globalization as positively related to poverty and argue that globalization increases poverty. Some skeptics put globalization and capitalism on the same scale and basically have an attitude against the market economy. On the other hand, they argued that globalization as a process is not new and that the results are far worse.

According to Held and McGrew (2007), the literature on globalization is divided into globalists and skeptics. Among the first approach, one can then distinguish between neoliberal globalists and transformationalist globalists. Among the second one, one can distinguish between Realist skeptics and Marxist skeptics. Transformationalists and liberal writers view the globalization process as a new and different process in which humanity has never witnessed before, but Marxists and Realists reject globalization as an observable process (Valentim, 2016).

In the analytical framework of Held and McGrew, there are neo-liberal (hyper) globalists, skeptic, and transformationalists. According to Hyperglobalisers, contemporary globalization is a new era in which people are subject to market politics everywhere. According to the skeptics, globalization is a myth that hides the division of the international economy into three regional blooms. In fact, the nation-state continues its existence very strongly. According to transformationalists, globalization occurs as "states and societies across the globe are experiencing a process of profound change as they try to adapt to a more interconnected but highly uncertain world" (Michael, 2011).

The main criticism of skeptics for hyper globalists is that little of their ideas of the formation of a global culture is based on evidence. They also question economy as the driving factor of globalization. The skeptics' various evidence are such as increasing inequalities, for example, wealth and gender after the implementation of the neoliberal economy in developing countries. Also, evidence for both decline and raise in the power of states which use international alliances to stay strong. Finally, a cultural resistance expressed through glocalization and nationalism.

Skeptical internationalists argue that the economy is internationalized rather than globalized and that this is not a new phenomenon but a development that started ages ago (Wallaert, 2015).

Aisbett, in his study of strong globalizers and cautious globalizers, has stated that the cautious globalizers see globalization a worse process for the poor. According to cautious globalizers, absolute inequality should be a concern for its own right regardless of the poverty outcomes. Cautious globalizers believe that the absolute number of people living in poverty matters more than the proportion (Aisbett, 2007: 68-70).

Some claims that globalization ultimately leads to a global culture that is peaceful, harmonious and increasingly interdependent. And will provide the basis for a global civil society. Others are much more skeptical, believing that the novelty and importance of recent changes are greatly exaggerated. And still, others worry that, while the fact of globalization is real enough, its consequences will be bad rather than good, resulting in the destruction of traditional communities and their replacement by a homogenized, vulgar and alien culture (**https://www.theage.com.au/articles/2003/12/04/1070351719946.html)**.

To its fiercest critics, globalization, the march of international capitalism, is a force for oppression, exploitation, and injustice. The rage that drove the terrorists to commit their obscene crime was in part, it is argued, a response to that. At the very least, it is suggested, terrorism thrives on poverty—and international capitalism, the protesters say, thrives on poverty too (Economist, 2001).

Some of the skeptics are opposed not just to globalization or even to the market economy but to the very idea of economic growth. On the other hand, a fashionable strand of skepticism argues that governments have surrendered their power to capitalism—that the world's biggest companies are nowadays more powerful than many of the world's governments. “Democracy is a sham. Profits rule, not people. Governments have the power, but they do not always exercise it wisely.” They are unreliable servants of the public interest. Sometimes, out of conviction, politicians decide to help companies reshape the world for private profit. So globalization may not help the poor at the end (Economist, 2001**).**

Skeptics believe that globalization is not a new process, but a form of internationalization that is ongoing. So, for them, the nation-state is growing and keeping its existence strong. We can see this with the growth occurring in the future based on current historical data and related linear trends (Solakoğlu, 2016: 3). Skeptics insist present empirical evidence that shows the nation-state is still alive and its borders are effective (Martell, 2007). In addition, the nation-state is still one of the major players, considering globalization. North America and Europe countries can be accepted as powerful nation-states (Solakoğlu, 2016: 3).

Conclusion

The complex relationship between globalization and poverty can be examined under three headings: pro-globalization approaches, critical approaches, and skeptic approaches.

Pro-globalizers approach to poverty negatively, agreeing that globalization reduces absolute poverty. This view suggests that globalization encourages international trade and provides for development in poor countries and reduces inequalities. The studies in this view indicate that some factors need to be assessed in this relationship. These factors can be listed as follows: income inequality between countries, inequalities between the poor (ex: educated-uneducated poor) that some poor benefits and some poor not, state intervention-complementary state policies, political and administrative globalization levels beside economic globalization; import shares, development level of countries and removal of social protection beside export activity and foreign investment.

Critical view criticizes the World Bank's absolute poverty statistics and argues that the incidence of poor people must be taken into account in terms of poverty rather than the number of poor people. Secondly, the critical view states that the phenomenon of inequality must be taken into account in the context of inequalities between countries rather than inequality within the country. Criticizers accept that globalization brings economic growth at some point, but they underline that undeveloped and developing countries do not have enough share and that the growth of the poor is not enough. Critical studies often do not rely on empirical work and believe that empirical work is not reliable because it involves limited factors and has some empirical weakness in itself. Finally, critical view see new poverty management activities which were brought by the globalization process and provide mitigating solutions towards poor rather than protective and permanent solutions.

Skeptics mainly discuss the practical presence and effects of globalization. They claim that globalization is a myth which brought inequality and injustice everywhere. It is the other name of capitalism which exploits the poor in undeveloped countries. Skeptics reject the existence of a global and homogeneous culture as they think that there are still strong nation-states such as Europe and America.

Consequently, the relationship between globalization and poverty is complex because the concepts are multidimensional. The clearest result of empirical research on this subject is that globalization has reduced absolute poverty worldwide. However, many empirical studies that take into account different globalization indices and different poverty dimensions imply that different dimensions such as income, inequality between countries, complementary state politics should be taken into account. Anti-globalization views question the credibility of measurements and criticize the narrow interpretation of poverty. On the other hand, there are still a few skeptical views about the existence of globalization.

References

Aisbett, e. (2007), why are critics so convinced that Globalization is Bad for Poor?, Globalization and Poverty (Ed. Harrison, Ann), University of Chicago Press, URL: http://www.nber.org/chapters/c0113.

Al-Rodha N. (2006). Definitions of Globalization: A Comprehensive Overview and a Proposed Definition, https://s3.amazonaws.com/academia.edu.documents/30929642/Definitions_of_Globalization_-_A_Comprehensive_Overview_and_a_Proposed_Definition.pdf?AWSAccessKeyId=AKIAIWOWYYGZ2Y53UL3A&Expires=1530697229&Signature=lfW283p6RGAh9yK%2BkkJnVGNnOM0%3D&response-contentdisposition=inline%3B%20filename%3DDefinitions_of_Globalization_A_Comprehen.pdf

Bergh, A.& Nilsson, T. (2014). Is globalization reducing absolute poverty?, World Development 62, 42–61.

Bergh, A., Mirkina, I, Nilssona, T. (2016). Do the poor benefit from globalization regardless of institutional quality?, Applıed Economıcs Letters, 23, 10, 708–712, http://dx.doi.org/10.1080/13504851.2015.1102835

Bhagwati, J., and T. N. Srinivasan. 2002. “Trade and Poverty in the Poor Countries.” American Economic Review 92 (2): 180–183. doi:10.1257/000282802320892l2.

Dada, J.O. (2005). Wealth Creation Versus Poverty Alleviation: A Definitive Crisis?. African Association for Public Administration and Management. 26th Aapam AnnualRoundtable Conference, Mombasa, Kenya 7th-11th March, 05.04.2012. http://unpan1.un.org /intradoc/groups/public/ documents/ AAPAM/UNPAN025730. pdf .

Dollar, D., & Kraay, A. (2002). Spreading the wealth. Foreign Affairs (January/February), 120–133.

Dollar, D., & Kraay, A. (2004). Trade, growth and poverty.” The Economic Journal 114 (493): F22–F49. doi:10.1111/ecoj.2004.114.issue-493.

Dreher, A. (2006). Does globalization gffect growth? Evidence from a new Index of Globalization, Applied Economics 38, 10: 1091-1110.

Economist, 2001. https://www.economist.com/special-report/2001/09/27/globalisation-and-its-critics, 08.07.2018.

Friedman, Thomas (2005). The world is flat. London: Penguin Books.

Game, A. (2001). Creative ways of being. In J. R. Morss, N. Stephenson, & J. F. H. V. Rappard (Eds.), Theoretical issues in psychology: Proceedings of the International Society for Theoretical Psychology 1999 Conference (pp. 3-12). Sydney: Springer.

Garrett, G. (2001), “The Distributive Consequences of Globalization”, http://econ.ucdenver.edu/beckman/Econ6410/garrett-distributive.pdf, 08.07.2018.

Giddens, A. (1991). The consequences of modernity. Polity Press. Cambridge.

Gilpin, R. (2001). Global political economy: Understanding the international economic order. Princeton: Princeton University Press.

Harrison, A. (2007)., Globalization and Poverty: An Introduction, http://www.nber.org/chapters/c10713.pdf

Hayaloğlu, P., Kalaycı, C., Artan, S. (2015). Küreselleşme Farklı Gelir Grubundaki Ülkelerde Ekonomik Büyümeyi Nasıl Etkilemektedir?, Eskişehir Osmangazi Üniversitesi İİBF Dergisi, 10(1), 119-152.

Held, D., & McGrew, A. (2007). Globalization/anti-globalization: Beyond thegreat divide. Polity Press. Cambridge.

Jagdish Bhagwati, T.N.Srinivasan, Trade and Poverty in Poor Countries, American Economic Review Papers & Proceedings, May 2002.

Martell, L. (2010). *The sociology of globalization.* Polity Press. Cambridge.

Michael, B. (2011). Theorising the politics of globalisation: A critique of Held et al.'s transformationalism, Journal of Economic and Social Research 4, 2 3-17.

Milanovic, B. & Squire, L. (2007), Does Tarrif Liberalization Increase Wage Inequality? Some Amprical Evidence, In: Globalization and Poverty (Ed. Ann Harrison), University of Chicago Press, Volume URL: http://www.nber.org/books/harr06-1

Milanovic, B. (2006). "Global inequality: What it is and why it matters". DESA Working paper no. 26. Nova Iorque: Nações Unidas.

Milanovic, B. (2007). Why we care about inequality (but are loath to admit it. Challenge. 50(6), 1-12

Mok, A.L. H. (2002). Complexity in linking poverty and globalization, Journal of International & Comparative Social Welfare, 18:1-2, 85-94, DOI: 10.1080/17486830208412630.

Pavcnik, N. (2009, April 28). How has globalization benefited the poor. Yale Insights. https://insights.som.yale.edu/insights/how-has-globalization-benefited-the-poor

Peck, J. (2011). Global Policy Models, Globalizing Poverty Management: Iternational Convergence *or* Fast Polic Integration?. Geography Compass 5, 4, 165-181.

Potrafke, N. (2015). The evidence on globalisation. The World Economy 38, 3, 509–552. doi:10.1111/twec.2015.38.issue-3.

Rao, B.B. & Vadlamannati, K.C. (2011). Globalization and growth in the low income African countries with extreme bounds analysis. Economic Modelling 28, 3, 795-805.

Rao, B.B., Tamazian, A. & Vadlamannati, K.C. (2011). Growth effects of a comprehensive measure of globalization with country-Specific time series data, Applied Economics 43, 5, 551-568.

Rodriguez, F. ve D. Rodrik (2000). "Trade Policy And Economic Growth: A Skeptic's Guide to The Cross-National Evidence. http://www.hks.harvard.edu/fs/drodrik/Research%20papers/skepti1299.pdf

Santarelli E. & Figini, P. (2002). "Does Globalization Reduce Poverty? Some Empirical Evidence for the Developing Countries," Working Papers 459, Dipartimento Scienze Economiche, Universita' di Bologna.

Schifferes, S. "Can Globalization be Tamed?", BBC, 24 Feb. 2004, https://www.globalpolicy.org/component/content/article/218/46544.html, 12.07.2018.

Seçkiner, B. E. (2017). Kamu yönetimi ve yoksulluk bağlamında yeni yoksulluk yönetimi. Toplum ve Sosyal Hizmet, Vol. 28, Nr.1, 134-150.

Solakoğlu, Ö. (2016). Three Different Perspectives On The Role Of The Nation-State In Today's Globalized World Ozgur Solakoglu, European Scientific Journal, September Special Edition. ISSN: 1857 – 7881

Stiglitz, J. (2001). Globalization and its discontents. London: Penguin Books.

Şenses, F. (2004). "Neoliberal Küreselleşme Kalkınma İçin Bir Fırsat mı, Engel mi?", Working Paper in Economic, METU- Economic Research Center, Ankara.

United Nations Development Programme (1999). Human Development Report. New York, United Nations.

Valentim, V. (2016). The debate on the relationship between globalization, poverty and inequality: a critical overview". *JANUS.NET e-journal of International Relations*, Vol. 7, Nº. 2, November 2016-April 2017. Consulted [online] on the date of last consultation, observare.autonoma.pt/janus.net/en_vol7_n2_art4 (http://hdl.handle.net/11144/2783)

Wade, R.H. (2004). Is globalization reducıng poverty and inequalıty?. Intrnational Journal of Health Services, Volume: 34 issue: 3, page(s): 381-414.

Wallaerti M. (2015). A critical account of how different ideological perspectives view the effects of global social change in culture, http://www.bonfiire.com/stellenbosch/2015/04/acritical-account-of-how-different-ideological-perspectives-view-the-effects-of-global-social-change-in-culture.

World Bank API (2011). List of countries by percentage of population living in poverty. https://ipfs.io/ipfs/QmXoypizjW3WknFiJnKLwHCnL72vedxjQkDDP1mXWo6uco/wiki/List_of_countries_by_percentage_of_population_living_in_poverty.html, Date: 07.07.2017.

World Bank (2013), (https://data.worldbank.org/topic/poverty, 02.07.2018).

Yanar, R.& Şahbaz, A. (2013). Gelişmekte olan ülkelerde küreselleşmenin yoksulluk ve gelir eşitsizliği üzerindeki etkileri, Eskişehir Osmangazi Üniversitesi İibf Dergisi, Aralık 2013, 8(3), 55- 74.

PART II.

CHAP 6.

GLOBALIZATION AND NATION-STATE: CONCEPTUAL AND THEORETICAL INVESTIGATION

Hatice Sevgi ZENGİN, Emin SALİHİ***

Introduction

Globalization has become one of the key concepts to be explored in the analysis of transformations in economic / political / social spheres in the 20th century. Nowadays, it is no longer possible to ignore global influences analyzing a particular society. However, a clear definition of "global impact", which can't be overlooked, can't be made and it continues to have its controversial essence. Along with that, the effective dynamics in the existence of globalization can be determined more as Global information flow (Information age) and global market. The global information flow illustrates its presence well in cultural transformations; in societies that are part of the new world order, the identification of similar indicators in historical cycles has become well grounded. Here, the question "were not the previous transformations global?" can be asked. In the past, not only the changes were not as fast as today and were not in such a scale to influence the others, but also the level of awareness regarding these transformations were not in great extent. In modern age, it offers frameworks that are more or less valid and reproducible for each of the different modern societies, whether as a 'consumer culture' (Bauman, 1999) or as a 'culture of fear' (Furedi, 2002) or as a new age (Kozanoğlu, 1997). Regarding the global economy, the post-fordist mode of production, flexible modes of production, liberalization of capital movements are the dynamics that can be observed on a global scale. The mentioned dynamics can be regarded as grounds for reconciliation; and discussion is based on the concepts of globalization, localization, globalization, nation-state, global society. In general, trends can be categorized as:

1. The nation-state will disappear and supranational structures will be determinant.

2. The nation & state cohesion will be dissolved and the nation-state will undergo transformation.

* Hatice Sevgi ZENGİN, Department of Public Administration, Faculty of Economics and Administrative Sciences, Nigde Omer Halisdemir University, h.sevgi.zengin@hotmail.com.

** Emin SALİHİ, Department of Political Science and International Relations, Faculty of Economics and Administrative Sciences Nigde Omer Halisdemir University, eminsalihi@gmail.com.

3. The global community will act as homogenizer and will dissolve the local.

4. Global society will integrate with local ones and Glocalization will come into the agenda.

In the process of globalization and prior to starting the nation-state debate, it would be correct to analyze the movement of modernity with the idea of enlightenment as the philosophical ground giving birth to the nation-state. Later on, based on the critique of modernism we will attempt to discuss the course of nation-state within the above mentioned categories.

The birth of modern science is said to have started with Galileo in the seventeenth century and to be developed by Torricelli, Descartes, Pascal, Malpighi, Huygens, Newton, and Leibniz. The 17th century, as well as being a thriving point in terms of scientific development, has been a bourgeoning era owing to the contributions by Shakespeare, Milton, Spinoza, Moiliere, Calderon, Gronzio, Rembrandt and others to the art and philosophy. As a pioneer in beginning of the process, as for Galileo's ideas being unique and different from previous narratives, the fact that there are events fitting the laws in nature, and that even complex mechanisms can be deduced from ordinary and familiar cases; it can be understood that the inner truth of reason and natural phenomena can be comprehended.

The new science conceptualized by the mentioned scientific transformation is "the social basis of any society, not to be called as the mysterious knowledge for a one-man initiative or a happy minority, but it can be so bold as to try to enter a process of renewal by breaking with its old values and beliefs" to be a determinant of modernism (Ferrarotti, 2000, p. 53) The founder of this new society is the Cartesian essence of the Enlightenment. There is dogma regarding the enlightenment, and Cartesian subject exists as we witness, and political arena is the field to propagate and settle the enlightenment. As a political actor, Cartesian subject is also responsible for being the determinant of his own existence. The elaborations of humanity become even clearer in such situation. Humanity believes that "although it does not declare the death of God, it regards that as the creator of human destiny" (Goyard-Fabre, 2003). Affirming the "supremacy" of man reaches the stagnating point of enlightenment and contingency is articulated.

The political manifestation of enlightenment can be described as 'revolutionary'. The task of the revolutionary enlightenment is clear: "salvaging humanity from the growing ignorance, the baseless belief, the cruelty, the intolerance and the fatalism that the religious dogmatism has fostered through centuries. It goes for liberation of man from the slavery he has adopted to himself, he acknowledges that in a long or short run this will lead to a world ruled by the principles of civilization, tolerance and tangible progress of experimental sciences" (Lilla, 2003). The concept of enlightenment is embodied in modernism, but enlightenment is also the subject of post-modern debate in terms of the criticism by counter-enlightened philosophers and modernism.

Modernism has created a sense of history through departure from dogmatism and the assumption that scientific knowledge and human mind are progressive in a straight line. The revolutions that define the modernity operating on contradictions in particular include; the scientific revolution that represents the transition from the nature of God's administration to the determinism of the laws of nature through the discovery of Newton's heavenly space, the democracy that has emerged as the normative rule of the modern state from any administration to the extent that the source of power is deducted from the divinity, the political revolution at the point of origin, the secularization of social life and the cultural revolution in the sense of breaking the conception of nature, and finally the industrial revolution to characterize the abstraction of labor, the autonomy of the technical structure (Jeanniere, 2000, pp. 97-103).

The concept is based on existence of a linear relationship between the enlightenment of the founding discourses of modernity, the idea of modernity and the conclusion of the development of mind and freedom, and it is responsible for the rationalization and bureaucratization processes driven by Industrial Revolution and the French Revolution. While it is possible to analyze different societies through the various institutions brought by modernization, it would be correct to point out the problematic of this article as a modern formation of the nation-state in terms of the movement of the nation-state in the process of globalization.

From Global Society to Local Communities, The Destiny of The Nation-State

The debate on the nation-state is an ongoing process for globalization and primarily, the concept of 'world society' based on the principle of reducing the distinctions between the societies within the boundaries of the nation-state can be taken into consideration. According to Wallenstein the conceptualization of the world community is based on the capitalist production and trade relations, while Luhmann defines the concept through communication (Sarıbay, 2004, p. 2). Wallerstein's conceptualization of world society can be read as part of the analysis of the world system. Based on Mandel classification on cyclical movements of the capitalist system, Wallerstein attempts to identify similar transformations within different nation-states and bases his analysis on the hegemonic power classification taking its geopolitical stance through enforcement of distribution of social power (Wallerstein, 1998). The high growth during certain periods in capitalist process, followed by the occurrence of the crises and the social movement brought by creates similarities that can be found in different parts of the global world. Castells diverges in the definition of the global economy from Wallerstein's theory of world systems at the point that the global economy is not an extension of the old world economy. According to him, the old world system is based on the geographical extension of the capital, while the global economy operates on a global scale. While the financial relations in the old world system were contingent on mutual contact and trade routes, taking into account the national state borders and international political content agreements, the new global market system works on independent capital movements in association with spatial relations and since the capital movements do not accelerate in the old system, the possibility of states intervention in this process is restricted as well. Just as the stock market fluctuations in the new world do not allow the nation-state to gain a spatial advantage against the economic crises that can go out of control, the regionally dominating nation-states may be out of phase in financial terms. According to Castells, there are determining economic events in the global economy. Hegemonic powers shape the global economy by making dominant the events around liberal market values all over the world (Castells, 2004a, p. 16; Giddens, 2004, p. 180).

In parallel with Luhmann, who bases communication on the "world society" Castells emphasizes on the information society with reference to the internet. Castells starts the information age with the 1970s as dynamism he defines 'informationalism'; which is the movement of knowledge through knowledge as the transformation of production. The informationalism mentioned above makes it possible to distinguish between space of place / space of flow. 'Space of flows ' is based on time, while space of place is based on physics and is directly related to interpersonal relationships (Armağan, 2004, pp. 36-46; Castells, 2009, pp. 33-36). Explaining a new concept of society having communications and information technology with the capacity to connect global financial markets 24 hours a day with reference to the global media system and Internet use, Castells uses the phrase "network society" to define the process (Castells, 2004b, p. 116)

Analyzing the network community in his book, The Power of Identity (2006), Castells emphasizes global partnerships in the expression of identities. This process points to the dissolution of the relation between individual / society and nation-state. The advantageous position in this dissolution process is attributed to religion as a common identity in the network society. Along with importance of Religious mobility in the anti-globalization social movements based on primitive identities, the instrumentalization of global networks acts as the bearer of globalization (Castells, 2006, pp. 4-5). In spite of the fact that the information age has streamlined the network of relationships, the resistance of the local to the 'space of flow' can also be taken into consideration. The heart of this resistance is the Islamic fundamentalism described as hypermodern by Castells and in this sense fundamentalism does not mean longing for the tradition. Castells also mentions the crisis of legitimacy of the nation-state. In the foundation of the fundamentalism resistance, it is a fact that the alienated defames the others values; and through this community is established; the grounds of new organizations no longer take place at the level of civil society. Castells point to the rise of micro-nationalism on the basis of a distinct nationalism and nation enjoying a different definition from the state in the dissolution of nation-state and civil society (Calhoun, 2004). Defining the nation-state, we mentioned that these two phenomena cannot be reduced to each other, and the state takes its legitimacy from public in a great extent. Going back to Castells, the debate can be read as a discussion of the legitimacy of the state. As the legitimacy of the nation-state in this respect is questioned, its meaning increasingly takes the role of safe haven. What is important in this debate is the paradoxicality where the state stands. While the states might adopt the communal rhetoric to turn out to be exclusion from the globalization process, a reverse stance could loosen the ties among the nation-state's and the citizenry.

Shortly, Castells remarks on dissolution of nation-states together with the tension of civil society, but this hyper-globalization does not mean that globalization as well as nations and states will vanish. While Castells' claim is interchangeable with cultural societies referring to the historical heritage of the nations (Castells, 2004b, p. 120), the states will be structured as network states (the "imaginary cultures" that states make to legitimize themselves). According to Castells, information technology erases the distinction between time and space, and is not the local 'real time' observed in the emerging network society, but timeless-time (Sarıbay, 2004, p. 9). As the nation-state exists with the borders, the loss of the property of the place can also cause a crime on behalf of the nation-state. Where globalization is troubled by the nation-state, it becomes possible to speak about localization exactly; the polarizing effect of globalization.

It is possible to define the localizing effects of globalization through congregations. If modernism is a result of political formations of nation state, the social aspect is the community. However, in the process of globalization under post-modern influences, the critique of modernism has revealed communities that can be expressed in a broader extent by solving the 'nation-community'. But this latent modern locality points from the fixed space (land) to the abstract space (Castells 'real virtuality'). This is a moment when the community also transforms; it is the expression of 'temporary / artificial' alliances. Therefore, it can be said that there is a disconnection between the locality and the place. Although where societies are dissolved the communities rise, these communities are not as before. While the postmodern congregation has become a structure surrounding the human being completely, far away from the commitment of life itself, Since the Enlightenment, there has been a protest against the citizenship as an important element of politics in the West and the manifestation of the nation-state dichotomy (Yelken, 1999).

The Other Face of Globalization: Postmodernism

Postmodernism, as a critique of modernism, while questioning the legitimacy of modernity, accepts a centerless, multi-centered world by disrupting the perceptual world-centeredness of the Cartesian subject that Enlightenment has put in place of the divine centered order of the past. While modernism subjects and citizens in political form are part of the whole, differentiation and elimination of differences in postmodernism causes simultaneous fragmentation and articulation (Aslanoğlu, 1995, p. 90). In the 1970s Postmodernism, with the discourse of heterogeneity, polygamy, division and anarchy has an ironic approach towards the progressive 'dream' of modernism and postmodernism is analyzed by Jameson as a new stage of capitalism (Anderson, 1998, p. 55-56). Again in 1970s, technological threshold for postmodernism is the invention of color television. Unlike radios, which allow engagement with other things while listening, the color television dominates the masses (Anderson, 1998, pp. 88-89). These developments, which produce a form other than the classical temporal relation, so as not to require spatial connections among the masses, construct a new postmodern perception of space in the process of globalization. The postmodern conception of space regards the space in a fragmented, irregular form and designs a 'hyper-space'. Hyper-space refers to the fact that the network of multinational and decentralized capital does not allow for the outer perception of the network; the internal / external, old / new antagonism has been eliminated and lack of direction is dominant in the hyper-space sense (Savran, 1999, p. 181).

The transformation of postmodernism's spatial perception is a threatening notion for the modern-day nation-state project. choosing the city as the space and forming the city utopias, Modernism constructs the ideological background of the modern-nation project, While the planned urban construction is designed as forms that show micro-integrity in urbanism and city nation-state project, the postmodern view perceives the city not as whole but as in parts and 'uncharted cities' (Işık, 1993, pp. 30-33). Unlike the modern-nation project, postmodernism builds up the fragmented texture, the 'world' consisting of the nation-state and the state borders, another threatening effect of global and postmodern transformations for the nation-state is that the ideological discourses homogenizing the masses that the nation-state has put forward are marked as 'meta narratives' and are disgraced. While Lyotard emphasizes that the distinctions of scientific knowledge / non-scientific information are being erased and that great narratives are lost ontologically in a sense that they lose credibility of top narratives / meta narratives and that these narratives are impossible to capture entirely, (local creativity) is coded as good (Lyotard, 1984; Sarup, 1995, p. 175). The idea of nationalism, which builds the nation-state of the nation, and the representation of the nation in the context of theories of national sovereignty / popular sovereignty is criticized within the framework of the rejection of meta narratives.

The postmodern view regards 'representation' as metamorphosis, multiplication, substitution and copying, and rejects democracy (Rosenau, 1998, pp. 155-174). A proposition of republicanism, which demands rejection of representation and disintegration of the people, is the cornerstones of postmodern politics (Lyotard, 1991). Derrida, through Foucault, Laclau and Mouffe suggest that social / political identities, which designate the field of identity as a field of difference by emphasizing discourse in the context of postmodern identity, should be seen as open-ended, unstable, and contingent structures, not closed, ultimately completed structures. Defying state, centrally, anti-hierarchical discourses Laclau and Mouffe highlight the crisis of the Enlightenment while challenging rationalism and humanism in modernity. While The project of radical democracy does not completely reject universalism, as trying to include the practices of difference, singular, plural, heterogeneous excluded by man, it does not completely reject universalism; it replaces the notions of pluralism and conflict with modern society's transparent society in an attempt to capture a new kind of articulation between universal and particular. Political context should be taken into consideration in a postmodern way, not as a homogenous, transparent society, but as a struggle for conflict and position (Mouffe, 2000, p. 303). The paradigmatic shift from the modern to the postmodern is a determining factor in the resolution of the globalization of the nation-state linkage and the beginning of the legitimacy as a reference to the nation. As far as the identity and nation-citizen-related identities are concerned, the global society and local or religious identities dominate, making the hegemony of the modern state project controversial.

From the Nation-State Crisis to the State

Globalism is in challenge with the nation / state over global society, but this is an intricate relationship. The formation of global society is influenced by the globalization process, its actor being the capitalism, and globalization can be regarded as 'globalization' of capitalism. There is a triple distinction about the matter: globalism as an extension of neo-liberalism, 'globality' in the sense of 'world society' referring to a process beyond the nation-state, and finally globalization as a transnational process accepted as not to be reduced into different entities like ecology, culture, economy, politics and civil society (Sarıbay, 2004, pp. 18-19). Sarıbay mentıons the ironic influence of modernity analyzing globalization and suggests that modernity reverses in the globalization process of homogeneity / standardization, conformism, the creation of order / order, causing heterogeneity, rebellion, imperfection / chaos. According to Sarıbay, the nation-state can also be situated in this framework. Ironically, the nation-state dissolving influence of globalization, with a strong expectation, can strengthen the nation-state (Sarıbay, 2004, pp. 35-37). However, this is the dialectic of homogeneity / heterogeneity in the context of nation-state and global congregation that needs to be taken into consideration. It is a contradiction that homogenization, which is nullified for the nation-state, is presented as the norm at the global level, and the possibility of global homogeneity is contingent to heterogeneity at the nation-state level. Sarıbay defines the sovereignty of the nation-state as ‘plastic sovereignty’ (Sarıbay, 2004, pp. 91-92), which can dominate the level and the area as imposed through global homogeneity. The mission of the nation-state has begun to undergo transformation at this point. The nation-state will homogenize itself and will not be able to take precise distinction lines from the other, but it may exist to such extent that can represent conflict between the heterogeneous groups within the borders.

Globalization is characterized by an increase in the integration of national economies in the global economy, the mobility of technological advantages, and the rejection of barriers to trade and investment. Derived from this definition, globalization and internationalism may also be referred to as an opposite relationship or discrimination, as between globalization and localization. As an alternative to globalization, localization stands out on the politics of society and state control referring to nation boundaries. Although globalization does not reject the local content of the local entities, it is in challenge with local borders. Due to pointing to locals, Internationalism is a situation where national distinctions are observed (Hines, 2000). Globalization relies on the transition from the international economic system, which distinguishes between foreign trade relations and the national economy, and the transnational vision of the economy through the globalization of markets. "There are now states that are embedded in markets, rather than national economies that are now buried within the boundaries of states" (Habermas, 2000, p. 204). Habermas explores the transformation of the nation-state in the context of the development of the global market system in three dimensions:

1. The loss of autonomy of nation-states, the secondaryization of their own dynamics in protecting the citizen of the state from the effects of the process shaped by the decisions of the 'other'

2. Decrease in the legitimacy of decision-making processes between decision makers and those affected by decision

3. The loss of the functional self-sufficiency of the regional economy 'nation-state' (Habermas, 2000, pp. 204-206).

With the transformation of the nation-state, whether it will vanish or not is a matter of debate. Capitalism, on the other hand, needs the state in the name of stability for the preservation of the marketplace of the markets and for the infinite accumulation of the capital. In this case, what will happen to the nation-state at the moment of globalization as the globalization of capitalism? Habermas refers to this question as the postmodernism of resistance, multiculturalism, the discourse between the nation and the state, as Castells, referring to the discourse emphasizing the 'other', and precisely states that the concept of nation is necessary for stability. This process can be explained by the concept of 'globalization of markets. Habermas mentions the four pillars of the globalization of markets:

1- The geographical spread and intensification of international trade has made national economies become a part of the world economy.

2- Decrease in the supervision of the tax offices of national governments based on liberalization of capital circulation in the global network of financial markets and the pressure of the international stock exchange on national economies

3- Multinational companies rise and shift investments to other countries

4- The pressure of the so-called "newly-industrialized countries" on the OECD countries, shifting the economies of these countries to high-tech fields

Based on these determinations, Habermas makes a distinction between the international exchange system and an extraterritorial world economic system. Transition to the transnational concept, referring to the interdependence relations between the systems, which are shaped by the decisions of the other nations, of the political action area of the national states. The nation-state begins to become impotent in terms of authority (Habermas, 2002), beginning to take its weight from being "speed master" rather than "master of territory".

In fact, it is not an exchange between the so-called nation-state and the global market. That is, the major international and / or transnational corporations of the markets will no longer replace the nation-state and prevail in the classical political sense. The nation-state in question here is more concerned with the limitations that determine itself, particularly in terms of macroeconomic efficiency, than in the past. In this context, it is argued that it is not very meaningful to compare the power of governments and large corporations. While it is possible to make a comparison between the two countries on national income, the arguments of the government / company comparison will not be argued in details. The interaction between large corporations and the political sphere can be established by lobbying to influence possible politics, and there is no chance for large corporations to regulate citizenship using dominant / public power directly. However, the possibility of people going to other places and the global flow of information can be read as a democratizing effect and as forms of restraint towards the state. The possibility of transition to different places can function as a guarantee of existence for the nation-state to the extent that it depends on the existence of different legal and administrative structures on the basis of national-state (The Economist's Globalization File, 2001, pp. 131-138). Once more, here we can speak of change in the preliminary acceptance of liberal theory. The invisible hand of Adam Smith and Ricardo's Theory of Comparative Advantages are products of a period when the mobility of capital is very limited. Considering the unstable economy, it can be considered that Ricardo's theory is not a dissolver of nation-state, rather every nation can strengthen the nation-state distinction by suggesting a sectoral specialization through producing a good product (Hines, 2000). However, it may not be enough to just evaluate the claim of dissolution of the nation-state with economy-oriented dynamics, and alternative analyzes may be constructive.

There is also a claim by Poulantzas that the globalization process will not lose the significance of the nation-state, despite emphasizing the effects of nation-state dissolution. According to Poulantzas, the state-political function cannot be reduced into the techno-economic function through abstraction, and the nation-state will not be withdrawn for the super-state. Poulantzas rejects the proposed supranational thesis for the following reason:

1. Globalization cannot completely limit the external relations of national economies and states. The super-state argument requires giving up domination.

2. The nation-states play an important role in the economic field in relation to foreign capital through mutual competition, and they play important roles in terms of ensuring that their capital is spread and adapted on the international level.

3. Nation-states will continue their nation's existence since they will support their national shareholders. Transnational regimes and institutions will be supported in parallel with national interest.

4. The nation-state is not a simple instrument of the globalization process, but will fulfill nation-state responsibilities for the preservation of social integrity.

5. Every nation-state implements its own strategy in the arena. Transnational politics operate as intergovernmental politics reflecting the national interests.

6. The workers of the nation-state organs, the beneficiaries thereof, will resist the process in order to preserve their positions (Jessop, 2001, pp. 64-66).

Brexit, the British separatist wing of the European Union (EU), supports the Jessop's argument. Since EU member states have conceded their sovereignty to a supranational structure, they have to harmonize their national politics with EU policies. Claiming that Britain's national interests and EU policies did not match, Politicians representing the separatist wing in England wanted to have a referendum to secede from the EU. The referendum was held on June 23, 2016. As a result of the referendum, the British decided to leave the EU. In the referendum process, it is seen that the most important arguments of the separatists were built on discourses such as national sovereignty, national economic interests and the British self-governance (O'Toole, 2016).

While one aspect of globalization is the debate on future of the promised nation-state, the other is glocalized in the sense articulated to localize the concept known as "glocalization". Sarıbay maintains that the glocalization has reconstruction function on the loss of legitimacy caused by tension based on global capitalism 'winning / losing' axis. Ronald Robertson's concept of glocalization is a notion of transition from globalization or localization to globalization and localization. “Thus, it becomes possible for us to think of the two sides of a medallion as the centralization of globalization, decentralization, and fragmentation." (Sarıbay, 2004, pp. 50-51). In this direction, integration and fragmentation, globalization and dwelling have become part of each other, coincidentally and a bizarre way, the relationship of equality between synthesis and disintegration, integration and dissolution has begun to develop (Bauman, 1999, p. 72).

The alignment of global and local marketing strategies in global companies can be regarded as an instance of this issue. Local production and marketing methods of the McDonald Company operating in many countries of the world are examples of this. Moving with the motto of think globally, act locally, the company considers the specific consumption habits of each country. For example, making teriyaki burgers in Japan, buttermilk dumplings and putting barbecue burgers on the menu in Turkey, as well as having cold pie menu Italy are examples of glocalization. As seen in this example, the global "monotony" did not act instinctively and took local differences into account (Kolmakova, 2017).

Global cities can be mentioned as the transition point between globalization and localization. Determining the location of the global city, that is, setting the place where the global city will place itself, is important for the nation-state. In the process of globalization, some cities have begun to excel in the flow of goods, services, information and capital on a global level by increasing their specialization within national / global settlement systems. At this point, as it can be said that global city / world cities have an 'exclusion' -related style of relationship, autonomy from urban political processes is at stake (Isik, 1995, pp. 98-105). At this time, with interiorizing attitude, the nation-state can become the chief actor of the phenomenon of glocalization by adding the position of 'entrepreneurial cities' (Jessop, 2001, p. 74)

Conclusion

The most important effect globalization on the political arena through concepts such as world society, information society, space of flow, network society, hyper-space, micro-nationalism, multiculturalism is on the nation-state. The breakdown in the homogenization capacity of the nation-state laid the groundwork for the rise of postmodern congregations operating through localization and temporary / artificial alliances. While transmitting micro identity codes cause the disappearance of the meaning of the 'people' category, the fragmentation, articulation, heterogeneity, differences in the theme are homogenous and cause damage to the nation-state idea of a certain ideological center. In this process that reinforces the discursive backdrop of postmodernism, the disappearance of the meaning of people and the nation vacates the concept of political representation, while the political tendencies that the nation-state can orient and ideologically legitimize through 'national politics' become nullified. As Castells pointed out, besides suggesting the relation between the nation and the state, this process also brings about the construction of the decisive identity category of the network societies that emerged as a result of globalization from the religious sphere. A new form of Islamic fundamentalism not to be reduced to longing for the traditional and described as hyper-modern finds its ground in a context in which the legitimacy of the references of the nation-state based on popular sovereignty which is taken from the rule of law and equality over the alienation of others. The loosening link between the nation-state's citizens and the localizing dynamics, the globalization of religious fundamentalism, brings with it a new political problem that debilitates the nation-state: Global terrorism. On account of the attacks by international terrorist organizations, the nation-state has begun to have the problems associated with ideological identity in its own territory and to have the crisis of hegemony before its citizens. Although the nation-state's position against the market and the legitimacy problem make the national content of the nation-state controversial, due to economic stability and security demands against global terrorism, the capital has not bypassed the need for the state. The situation regarded by Castells as a split between the state and the nation points to a political process in which the nation-state is removed from being a meaningful component existing together and the state transcends to the nation. The power of the state has begun to become measurable as it is a 'master of speed' within the global market system and cannot offer an advantageous identity to the local.

In fact, globalization has made the relationship between the global and the local more clearly visible, even without establishing a world community, it has relaxed the link between technology and national / local cultures, (Touraine, 2004, p.80). In this respect, it is possible to mention the duality of globalization as a unifying and divisive influence. The uncertainty of which dynamics will overcome and the uncertainty about the emergence of new dynamics that may arise make it difficult to make a clear attitude at the point where ironic influences can also occur during the rebuilding of this debate.

References

Anderson, P. (1998). The Origins of Postmodernity, London: Verso.

Armağan, M. (2004). Küresel Kuşatma Karşısında İnsan, İstanbul: Ufuk Kitap.

Aslanoğlu, R.A. (1995). "Kaos Teorisi, Postmodern Durum ve Kent", Birikim, sayı:68-69, s.88-97.

Bauman, z. (1999). Globalization: The Human Consequences, Cambridge: Polity Press.

Calhoun,C. (2004). Küreselleşmeye Direnmek mi Yoksa Ona Şekil Vermek mi? , Armağan (Ed.). İstanbul: Ufuk kitap.

Castells, M. (2006). Kimliğin Gücü, İstanbul: İstanbul Bilgi Üniversitesi Yayınları.

Castells, M. (2009). Communication power, Oxford: Oxford University Press.

Castells, M. (2004a). The Network Society, Cheltenham: Edward Elgar Publishing.

Castells, M. (2004b). Ağda Küreselleşme, Kimlik ve Toplum, Calhoun, Lyon ve Touraine'e Cevap, M. Armağan (Ed.). İstanbul: Ufuk kitap.

Ferrarotti, F. (2000). Endüstri Devrimi ve Bilim, Teknoloji ve İktidarın Yeni Nitelikleri, F.Mayor ve A.Forti (Ed.). Ankara: TÜBİTAK.

Furedi, F. (2002). Culture of fear revisited: risk-taking and the morality of low expectation, London: Continuum.

Gayard-Fabre, S. (2003). Aydınlanma, çev. Emel Ergun, P. Raynoud ve S.Rials (Ed.). İstanbul: İletişim.

Giddens, A. (2004). Manuel Castells'in Ağ Toplumunun Yükselişi Üzerine, M. Armağan (Ed.). İstanbul: Ufuk Kitap.

Habermas, J. (2000). Avrupa Ulus Devleti ve Küreselleşme Tazyikleri, Mürekkep, Sayı:14, s.202-215.

Habermas, J. (2002). Küreselleşme ve Milli Devletlerin Akıbeti, İstanbul: bakış yayınları.

Hines,C., (2000). Localization: A Global Manifesto, London: Earthscan.

Işık, O. (1993). "Modernizmin Kenti/Postmodernizmin Kenti", Birikim, Sayı:53, s. 27-34.

Işık, O. (1995). Globalleşme Süreci ve Kentin/Kentliliğin Değişen Anlamları, Birikim, Sayı: 68-69, s. 98-105.

Jeanniere, A. (2000). Modernite Nedir?, M.Küçük (Ed.). Ankara: Vadi.

Jessop, B. (2001). Küreselleşme ve Ulus-devlet, Türkiye Günlüğü, Sayı: 64, s.61-78.

Kolmakova, L. (2017). Glocalization Marketing Strategy of Mc Donald's Case Study: Turkey, Stocholm: Master of Science Thesis INDEK 2017:102 KTH Industrial Engineering and Management. https://kth.diva-portal.org/smash/get/diva2:1193691/FULLTEXT01.pdf.

Kozanoğlu, C. (1997). İnternet Dolunay Cemaat, İstanbul: İletişim.

Lilla, M. (2003). Karşı-Aydınlanma, P.Raynoud ve S.Rials (Ed.). İstanbul: İletişim.

Lyotard, J.F. (1984). The Postmodern Condition: A Report on Knowledge, UK: Manchester University Press.

Lyotard, J.F. (1991). "Meşruluk Üzerine Notlar", Defter, sayı:16, s. 99-116.

Mouffe, C. (2000). Radikal Demokrasi: Modern mi Postmodern mi?, M. Küçük (Ed.). Ankara: Vadi Yayınları.

O'Toole, O. (2016, Jun19). rexit is being driven by English nationalism. And it will end in self-rule, Retrieved May 3, 2018, from https://www.theguardian.com/commentisfree/2016/jun/18/england-eu-referendum-brexit.

Rosenau, P.M. (1998). Post-modernizm ve Toplum Bilimleri, çev. Tuncay Birkan, Ankara: ARK Yayınları.

Sarıbay, A.Y., (2004). Modernitenin İronisi Olarak Globalleşme, İstanbul: Everest Yayınları.

Sarup, M. (1995). Post Yapısalcılık ve Postmodernizm, çev. Baki Güçlü, Ankara: Ark Yayınevi.

Savran, G. (1999). "Postmodernizm: Yepyeni Bir Evre mi, Bir Eğilimin Mutlaklaşması mı?", Defter, sayı: 38, s.159-189.

The Economist'in Küreselleşme Dosyası, (2001). Türkiye Günlüğü, sayı:66.

Touraine, A. (2004). Manuel Castells'in Enformasyon Çağı Üzerine, M. Armağan (Ed.). İstanbul: Ufuk kitap.

Wallerstein, I. (1998). Liberalizmden Sonra, İstanbul: Metis.

Yelken,R. (1999). Cemaatin Dönüşümü, Ankara: Vadi Yayınları.

PART II.

CHAP 7.

FUTURE OF THE NATION STATE WITHIN THE CONTEXT OF 2008 GLOBAL FINANCIAL CRISIS

*Dr. Mustafa ARSLAN**

Introduction

In the 15th and 16th centuries, the modern-state came to the political arena in form of "nation-state". The distinguishing features of this new state structure were theorized as legitimacy and sovereignty by Niccolo Machiavelli, Jean Bodin, Thomas Hobbes, John Locke, Jean Jacques Rousseau and Emmanuel Sieyés. Initially, Machiavelli theorized the modern state by refusing the divine authority of the church over the states. Just after Machiavelli, Bodin introduced sovereignty concept and he drew up its features as absolute, sovereign, perpetual, unique, indivisible and unalienable. Later, Hobbes developed the theoretical framework of modern state by developing the theory of social contract. While John Locke defended the restraint of state power, Jean Jacques Rousseau argued the theory of popular sovereignty, and Emmanuel Sieyés implied national sovereignty.

The modern nation state was one of the important agents and indicators of the transition from land ownership-based feudal social order to capital ownership-based industrial social order. Main tasks that were imposed on the nation state in the era of capitalist society were the establishment of justice, the security of the country, trade routes and the sources of raw materials and energy. In line with “laissez faire” perception of the liberal economic model, intervention of the nation state to economy was rejected. Until 1929 Economic Crisis, the laissez faire approach had been implemented. However, the theoreticians of capitalist economic order have assumed a new role for nation state as a way out of the economic crisis; welfare state. In capitalist world, welfare state practices had been implemented until the mid-1970s. The nation state, which was seen as the key of evading the 1929 Economic Crisis, was accused of being the reason of another economic crisis that emerged in mid-1970s. In this context, the new task of nation-state was pulling out of the markets in favor of market actors and started regulating and supervising these markets. The Global Financial Crisis (GFC) that emerged in the United States in 2008, and which has been influencing the entire world recently, particularly

* Nevşehir Hacı Bektaş Veli University, Faculty of Economics and Administrative Sciences, Department of Public Administration, m.arslan@nevsehir.edu.tr

these countries that have had a major financial relationship with the US, have questioned the accuracy of these supervisory and regulatory functions burdened on the nation-state.

The phenomenon of globalization, which has been frequently used since the 1980s, maintains its importance in discussions about capitalist economic system. The globalization phenomenon which conceives of all the obstacles in front of the global means of production and conception of the earth as an economic whole, advocates the transfer of the powers of the nation state to supra-national and local and regional governments. This approach, which limits the authority of the state to the supervision and regulation of the markets, has been met with reaction and resistance, especially in the disadvantaged part of globalization. Regulations in the context of globalization have been interpreted in some political circles as the destruction of nation-state sovereignty. After GFC, the agents of globalization such as UN, NATO, IMF, WB and EU are on the target of not only disadvantaged states but also advantaged states of globalization. In response to the economic crisis, some countries are returning to national protectionist politics, while others are creating alternative institutions to globalization. It is evaluated that the future of the nation state will be shaped by the developments experienced among these dilemmas.

1. Links Between Globalization and Nation State

Globalization and nation-states are the concepts which are not opposed to each other (Bresser-Pereira, 2008, p. 557). Globalization is the recent stage of capitalist economic system and the nation-state is the territorial political unit and accelerator of the same system. Further, in the earlier period of capitalism, nation-state was the powerful engine of wealth creation and capital accumulation. Globalization was directly linked to the reduction of nation-state's power in early periods of its popularity but the consequences of the abandonment of markets to the initiative of market actors increased the necessity to reinforce the nation-state, particularly after 2008 GFC.

If we come back to the definition issue of the concept, the key argument to say is that no consensus has been reached regarding the definition of globalization. Its content has been changed depending on many factors such as discipline, nationality (winner or looser) and ideology of definer. Discussions on definition of globalization are presented shortly, due to page limitation. However, main purpose of globalization is to reorganize the economy on global scale. According to the literature, it can be said that there are four different dimensions of globalization. While political dimension aims at breaking down the obstacles in front of the economic dimension, social and cultural dimensions aim to establish change in the patterns of social consumption and to transform societies into the potential customers of global productions. For this paper, Lewellen's definition is comprehensive enough. Accordingly, globalization is a rising in trade, finance, culture, notion, and immigration; expansion of neoliberal capitalism;

integration of local and regional units into the global system and reluctance to this alteration (Lewellen, 2002, p. 7, 11).

The other concept of this study, the nation-state, is both product and expansion mechanism of capitalism. Capitalism needed a new model of political organization for the security of energy and raw material resources and trade routes. Within this context, the solution was a new state-model instead of feudal state which was founded on national bases. The development that brought the nation states to the stage of history was the Westphalia Peace (1648) signed after the Thirty-Years War in Europe. According to the Westphalia Model, the world is made up of sovereign states and supra-national authorities (church and Roma Empire) had lost their influence (Uygun, 2004; Yıldırım, 2004, p. 40).

1.1. Theoretical Basis for Explaining the Links Between Globalization and Nation State

It is seen that almost all of theoretical studies aimed at explaining globalization deal with this concept in the context of the relationship between nation state and interaction with it. According to Myint (2011), there have been four theses for explaining globalization. Hyperglobalists assume that traditional nation states have become unnatural and they are opposed to corporations and market conditions. In their opinion, globalization served to erode many of the national values but this erosion shouldn't be interpreted as the end of the nation state or their power in global politics was over. For Skeptics, statistical evidence shows flows of production factors between national borders. They prefer internationalization rather than globalization because of the nation-state's recent role in international law and policies. For Transformationalist, who views globalization as an evolutionary process, state authority is reconfigurated rather than declined. They argues that world order can be conceived by public and private participants at local, national, regional, and global level. From the last perspective, the Standardization Approach, globalization is a project of hegemonic nation-states, NGOs, and multinational corporations that intend to command and control the economic world-order.

In another categorization by Konak (2011), approaches that analyze relations between globalization and nation state are Strong Liberal Globalization, Skeptic Globalization, Marxist Global Capitalism and Marxist New Imperialist Perspectives. Strong Liberal Globalization approach states that by extension to globalization, nation-state became weak, shrank, lost its authority and sovereignty, even it came up against the threat of go out of existence. They argue that global markets became stronger than nation states. For Kennedy (1993), governments have been losing the control during the globalization process. Globalization undermines the nation state because neo-liberal ideology joined with globalization is opposed to state in general (Evans, 1997). According to Skeptic Globalization Approach, nation states have unbelievable capabilities in order to survive and adaptation. This perspective argues that globalization is creation of states and related with the reorganization of them (Konak, 2011). The idea that the state has become smaller, weaker, losing its authority and sovereignty due to globalization has been exaggerated (Weiss, 2003). Marxist Global Capitalism Approach defined nation-state as a transmitting belt that implements policies created by transnational institutions. The state consists of institutions and practices that protect, advocate and promote the dominance of the global elites, emerged in the global society. The driving force behind globalization is not the technological innovations defended by liberal globalists, but the class struggle. Revolutions in communication and transportation technologies are tools that facilitate globalization (Robinson, 2001). From Marxist New Imperialist Perspectives, globalization is in fact a new form of American imperialism. This new imperialism is portrayed as the direct penetration of foreign capitalist formations by the US capital (Konak, 2011).

1.2. The Debates about the Relation Between Nation States and Globalization in the Literature

The arguments about links between globalization and nation states focus on two subjects. First one is on erosion of nation state that of globalization has weakened the nation state and the second is that of globalization has redefined the way that nation states operate. For Offe and Wiesenthal (1985), in capitalist democracies, politicians structurally depend on the capital owners due to reliance on interest lobbies in order to finance election campaigns. According to Habermas (2002, p. 205), differentiation in the nation state takes place in three dimensions. The first dimension is the loss of autonomy of the state that means the state may be inadequate to protect its citizens from the indirect effects of decisions made by other actors or processes outside their borders. The second dimension is the loss of democratic legitimacy in which the state or nations are no longer the main decision-maker. The third dimension is administrative incompetence. Needs of increasing population and complexity of social management mechanisms cause some obstacles related to administration.

Suter (2008) stated that transnational corporations have eroded the notion of a national economy and there has been only a global one. National governments will not necessarily disappear but they will need to accept the fact that the nation-state system is waning and that corporations are the basic actors in new order. According to Uygun (2004), The First and Second World Wars led to the questioning of the Westphalia Model. Mantaining of peace and security in the globe required the reorganization of relations between the sovereign states and the binding of certain rules and the setting-up of international institutions such as NATO, UN, WTO, IMF and WB to observe these rules (Uygun, 2004). According to Bresser-Pereira (2008, p. 558), who approaches the debate from the perspective of developing countries, financial globalization becomes disastrous for developing countries by hindering to neutralize the tendency to the overvaluation of the exchange rate. As international organizations begin to use some of the powers that nation-states previously used without being dependent on any other supreme authority, the sovereignty of nation states has been restricted (Aslan, 2009, p. 291). In today's world, no government can rule the countries without considering international regulations and sanctions (Streeck, 2011, p. 25).

In the era of globalization, capital accumulation has increased globally. But this increase in capital does not mean that the nation-state has eroded or the hierarchical nation-state system came to an end. For Bertucci and Alberti (2001, p. 11), globalization does not take away the role of the nation-state, but redefines it. Naím (2009, p. 30) argues that nationalism has never disappeared and globalization has not reduced the national identities; it just integrated them under a complicated structure. The political dynamics developed at the end of the twentieth century and at the beginning of the twenty-first century were analyzed as the result of steps taken by governments to protect their national interests (Arrighi, 2005; Barrow, 2005; Harvey, 2005, 2003).

2. Global Fluctuation After Global Financial Crisis

Failure in regulation and supervision, globalization of financial system, corporate governance and risk management and failures of governments and the global system are condemned with GFC of 2008 (Farrar, 2012). It was more than a financial crisis and caused a paradigm shift (Farrar, 2012, p. 376). The GFC has led to critique of the legitimacy of free market capitalism and the dominant global order (Erne, 2011, p. 2).

The global scenario has changed (Stuenkel, 2013, p. 625). The notion of the global village was flawed (Suter, 2008, p. 216). GFC caused a legitimacy crisis of the international financial system (Stuenkel, 2013, p. 614) and it has been revived the nation-state and upset the global balances between the state and business, in favor of nation states (Friedman, 2008). Within three years from 2008, the distributional conflict has become a complex war between the global investors and the nation-states (Streeck, 2011, p. 21).

Following the GFC, capital controls became acceptable again (Rodrik, 2018, p. 9). In developed world, renounced from market-driven policies and re-regulation are becoming inevitable (Pieterse, 2009, p. 36). The failures of the market economy also favor antidemocratic impulses in these societies (Erne, 2011, p. 11). Reactions have been emerged with xenophobia in these societies and with hostility and ethnic racism in developing ones (Karyelioğlu, 2012, p.163).

While global financial systems have shown a tendency to disintegrate, nation states have tried to restore economic confidence for fiscal consolidation by socializing the bad loans (Streeck, 2011, p. 20). As an outcome of GFC, global geopolitical system was redefined by reseurrected Russian power, fragmenting Europe and debilitated NATO (Friedman, 2008). The elites failed to notice the revolt. Electoral victory of Donald Trump in the USA, Brexit and numerous parties throughout the Europe repressed the interests of the financial class (Friedman, 2016). A shift of power from the United States and Europe toward China, India, and Brazil (BRIC) has been taking place (Schweller, 2011). Lack of voting power in the multilateral Bretton Woods institutuons like the IMF, The BRICs establish their own rival institutions such as a development bank (Gow, 2015, p. 57).

3. Reemergence of Nationalism, Populism and Chauvinism

Perhaps the most important outcome of the economic crisis that emerged at 2008 in the United States and which soon expanded throughout the world is to re-gain popularity of protectionism and nationalism. Moreover, those who oppose globalization this time, those who are among the winners of globalization. In this context, market liberalization has stopped, and state intervention, regulation, and protectionism have begun. The wisdom of "everyone wins" has been undermined. Global trade, capital flows, and immigration are declining (Altman, 2009, p. 2). Increasing unequal prosperity on a global scale has put the stability and confidence in the world at risk and has begun to disrupt social peace. Unprecedented growth and redistribution of global wealth, a failure of leadership and wave of economic nationalism threatens a return to the dark ages of protectionism, isolationism, and xenophobia of First World War. The nation-state is even more incapable of supplying the new social contract based on fairness and investment but economic nationalism is a dangerous path that may cause conflicts (Gow, 2015). World Bank and World Trade Organization reports also confirm these developments. According to them, a movement to protect domestic jobs and discriminatory actions against foreign workers are spreading (Altman, 2009, p. 5). These are caused by sustainability of social security systems, increasing unemployment and poverty (Yılmaz & Akbulut, 2016, p. 84). Ferguson (2016) associates these developments with rise in immigration, increase in inequality, perception of corruption, major financial crisis and the demagogy. The problems associated with GFC in the other pole of globalization, in developing one, are different and it seems more difficult to get rid of it. These societies have a strong determination to protect their national sovereignty. Now, they are faced with the threat of tribalism, balkanization and weakening of the national unity stemming from cultural diversity and external influences (Suter, 2008, p. 204).

Global crisis affects both the core economic zones and nation-states; it has forced nation-states to re-examine their economic policies (Egedy, 2012). Like the previous ones, the GFC has brought a number of changes in country politics. Populism emerged all around the world. British vote to leave the EU by populist right, Donald Trump in the USA and Vladimir Putin in Russia are prominent cases (Ferguson, 2016). Different from 20th century's ideological discussions centered on liberal versus conservative, left versus right, the ideological debates of the 21st century is emerging as globalism versus nationalism (Eckman, 2017). The former supporters of globalization are today's ardent nationalists. All around the world, either developed or developing, nationalist and populist politics tend to rise. In many countries like UK, the

USA, Hungary and Argentina, racism, advocators of nationalism and chauvinism were democratically elected and approved at referendum. Currently, they are legitimate political preferences of these societies (Estévez, 2017). The emphasis on nationalist and conservative politics has increased since 2008, especially in the US and Europe. The new nationalist stream has emerged by Brexit and election of Trump. Their targets are global structures such as the EU, WTO, NATO, UN and the NAFTA (Eckman, 2017).

In the last presidential election in USA, Trump campaigned on a platform of hostility to globalization and free trade. He embarked on a quest to erect tariff barriers and to exact penalties on American corporations that invest overseas (Stokes, 2018, p. 137). Contrary to Bill Clinton, Trump defends the opinion of protecting national borders of USA from the ravages of other countries. Increasing the growth rate, decreasing the trade deficit and strengthening the US manufacturing base are his trade doctrine (Wolf, 2017). In this context, he is supported by manufacturing American states which were faced the risk of global manufacturing competition (Stokes, 2018, p. 146). He cancelled US participation in the Trans-Pacific Partnership, declared his intention to renegotiate the North American Free Trade Agreement (NAFTA) and menaced Mexico and China by imposing of tariff (Wolf, 2017). The nationalist and protectionist tendencies in world politics and his "America first" vision indicate the end of the golden age of globalization (Estévez, 2017). He has supported the disruption of the EU, questioned US global security alliances, and advocated the economic protectionism and isolationism (Stokes, 2018, p. 134).

Other developments that evoke nationalism are predominantly seen in Europe. The Eurozone crisis has accelerated the retreat to the nation state. There is now a renewed risk of recession in the wake of that crisis and the Great Recession, as most countries in Europe are recovering more slowly than ever before (Gow, 2015, p. 55). In recent times, because of the concerns that too much national sovereignty has been relinquished to Brussels, populist, nationalist, antiestablishment political parties have been supported in many European countries. These skeptic stances have been sprang into action in national politics of EU member states. Although not a completely new phenomenon in the EU, the recent boost in support for such parties largely began in response to Europe's economic stagnation, austerity measures, and the eurozone crisis. EU countries with increasingly successful populist and euroskeptic parties are Austria, Denmark, Finland, France, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Spain, Sweden, and the UK. They won 25% of the 751 seats in 2014 European Parliament elections (Archick, 2017, pp. 5, 6). National politics in Europe, especially in UK, France, Spain, Italy, Hungary and Germany are re-emerged (Dasgupta, 2018). In 26 of 39 European countries, right-wing parties have been in government and control the legislature (Wigmore, 2015).

A major source of support for radical right parties in Europe is the fear of immigration (Rodrik, 2018, p. 14). The emigration within the EU and from the outside has exacerbated these nativist sentiments (Egedy, 2012). In Britain, British National Party; in France, Le Pen and National Front; in Italy, The Lega Nord, associate international terrorism and immigrants and stated that they do not want immigrants in their country. They associate the increase in crime rates in their countries with immigrants (Kalın & Esposito, 2011, p.78). The French people voted for the EU Constitution by % 55 and the Dutch people % 62 for "No". In these countries, increasing unemployment, the belief that their work will be taken up by foreign workers, the increase in crime rate and the removal of the welfare state is among the reasons for this situation (Akıllı, 2010, p. 47). Voting to leave in Brexit referendum has been caused by poor economic outcomes at individual or area level (Sampson, 2017, p. 177). Depending on the similar reasons, nationalist politics are emerged in Hungary too. According to many experts, in Europe, Hungary is one of the biggest losers of GFC (Egedy, 2012, p. 171). According to European Commission Report (2017, p. 15), despite being a major source of growth, concerns about foreign investors, notably state-owned ones, have recently been voiced in Europe.

The most remarkable sample of nationalist politics is Brexit. Brexit marks a departure from globalization and European integration trend (Sampson, 2017, p. 163). It has sent shockwaves throughout the EU and could have significant influence for the future of the European Integration Project (Archick, 2017, p. 1) and has weakened one of the most important institutions of globalization (Stokes, 2018, p. 134). The EU confronts a range of constraints such as slow economic growth, higher unemployment, and the rise of populist, antiestablishment political parties and economic crises, which have raised questions about the future of EU (Archick, 2017, p. 1). The cautionary signals indicating the weakness of European Union notion were already received in 2013. The idea of changing the name of the EU to "United States of Europe" was received a weak support and 59 percent of Europeans were opposed to this idea (DW, 2013).

The EU set up in order to both prevent any war on the continent and ensure equitable sharing of the fruits of peace and prosperity. However, the fruits of this integration have been less. These undesirable and unpredictable results are propelling them into the arms of nationalists (Gow, 2015, p. 54). So, The EU has to reconceive both the state's role in the regulation of financial markets, and the role of nation-states in the union's future (Egedy, 2012, p. 171).

These national politics are not confined to the west. Depending on exhaustion, hopelessness and the dwindling effectiveness of old way, Russia, Turkey, India, Hungary, Myanmar, China, Rwanda, Venezuela, Thailand, the Philippines and many more countries are witnessed re-emergence of nationalism (Dasgupta, 2018). In Australia, Canada, New Zealand and the United States, right-wing parties have controlled the legislature (Wigmore, 2015). Besides these Euro-American societies, the political upheaval was seen in Russia, China, Saudi Arabia and Turkey. The re-emergence of these nationalist movements is the logical outcome of the failure of interdependence (Friedman, 2016). For fear of losing national identity and traditional culture, Burma, China, and Singapore, have implemented many policies in order to retain them from cultural influences of globalism (Myint, 2011, p. 412). The rise of emerging societies (BRIC-Brazil, Russia, India, and China) brings back the era of states (Pieterse, 2009, p. 36) instead of monopolar western oriented globalization.

4. Future of Nation State

Future of the state at the globalization era has been at the core of the scientific research in many social sciences such as economics, politics, and international relations. There have been many inferences about the future of the nation state. For Myint (2011, p. 396), the global transformation driven by interdependence, democratization, expansion of trade, technological innovation, and environmental degradation reshape the future of nation-states. In this aspect, state is a passive object and many external factors shape it. Contrary to him, Goldmann (2002, p. 285) argues that there is no globalisation without states. For Goldmann, the nation-state is an imperative pre-condition for the democratic welfare state. Similar to Goldmann, Wood (2003, p. 141) makes clear that the global capitalism is nationally organized and steadily dependent on national states. Another approach for the nation state emphasized its capability of designing the global activities. For this approach, maintaining the capitalism on global scale, state intervenes by enacting laws that would provide a wide range of conditions. In the global economy, the state is the structure of power. Being a fundamental element in the process of its extension, capitalism can not sacrifice the state (Pinder, 2011, p. 143). For Pieterse (2009, p. 30), after Keynesian consensus (1950-1980) and Washington consensus (1980-2000), comeback of states has begun.

An extensive research about the future of the nation state was done by Suter. Suter (2008, p. 208) states that there is an uncertanity about the future form of governance but three ways of trying to get countries united. The first one is federalist approach and according this approach, the nation states transfer some of the powers such external security to a world government while retaining some other powers such as enacting laws concerning ownership of property for themselves. For second, functionalist approach, more global agencies will be set up to handle a particular function. So experts can carry out their missions in a less political environment; and a network established by these agencies will covered the globe. For last, the grassroots people's movement to establish a global government will be realized.

Suter (2008) anticipates four scenarios for the future of the global order. First one is conceptualized as 'Steady State' and it correspond to strong nation-state/weak international social cohesion. In this scenario, national governments remain in control of their destiny and are unwilling to work together on common problems. Second one is conceptualized as 'World State' which means strong nation-state/strong international social cohesion. Here, remaining in control of their destiny, national governments are willing to work together on common problems and this evolves gradually into some form of global governance. This approach is not based on purely national solutions to global problems. Governments have to work together in order to solve many global problems. Third scenario, which is conceptualized as 'Earth Inc' correspond to weak nation-state/strong international social cohesion. In this scenario, national governments could lose his position over their countries and transnational corporations filled in the blank. Last scenario conceptualized as 'Wild State' means weak nation-state/weak international social cohesion. In this approach, national governments might lose control over their countries and there is no organization to fill the vacuum. Under these circumstances, increasing of chaos is inevitable. This can be called 'nightmare' scenario because of the increase in 'failed states', mass movements of peoples and increased environmental and health problem (Suter, 2008).

Concluding Remarks

The following conclusions can be drawn about the future of the nation state in the light of the determinations set out above. The nation state is an indispensable tool for globalization. Because, nation states have the power to push other nation states which refuse to integrate to global order, in the refulgent years of globalization. Globalization is built on the nation-state system and there is no global supremacy that all nation states bear. The legitimacies of globalization and its agents are rooted in the will of nation states. It is the sovereignstate what gives the basic rule of these agents (Barkin & Cronin, 2009). Global agents such as IMF, WB, UN can not take the action separately from the member nation-states. It is still national governments that set the rules of the global economy and determine its policies and global market forces can operate under their control (Bertucci & Alberti, 2001, p. 2). Nation-states remain the decisive role in globalized world order. The independence of supranational organizations depends on states, because they can limit or extend their autonomy, interfering in their activity, restructure or dissolve them (Gabriela, 2013, p. 310). If globalization is defined as a competition, nation states are the basic competitors; if it is defined as a competition between corporations; nation states become basic supporters of these competitors (Bresser-Pereira, 2008, p. 560). The nation-state contributes to the sustainability of globalization as well as an obstacle to the expansion of global integration. Combining globalization with national polities depend on this tension (Rodrik, 2012, p. 8). Globalization does not bring about an end of the nation-state. Contrary, the state has an important role in creating and maintaining the capital accumulation. Globalization depends on nation states (Wood, 2003).

Both globalization and the nation-state are products of capitalist economic system. While the nation state had been needed in terms of the security of capital in the first phase of capitalism, globalization is the last phase of same system. These two concepts seem to be competitors however they are actually two different players of the same team. The interests of the state and capital owners are overlapped. Capital owners have both framed the state's agenda, and it influences the politics of the state (Pinder, 2011, p. 140). So called multinational corporations are in fact national corporations, because they are controlled by one or two countries.

Today's high-income countries used their industrial policies to encourage their own national firms (Nolan, 2010, p. 79). The clearest evidence of this fact lies in the activities of the ambassadors of these countries in developing ones. Each ambassador knows well whose interests he is supposed to represent. He does not hesitate in protecting their interests, since this is one of his basic missions (Bresser-Pereira, 2008, p. 560).

One of the essential necessities of capital is ensuring the safety of raw-material and energy resources and markets. Either physicaly or virtually, nation-state is the only organized structure that has the capacity to meet this demand globally. Habermas (2002, p. 11) argues that globalization depends on the existence and strength of nation states and that international corporations will not be able to operate without strong state institutions, secure their economic activities, and will not be able to compete. The nation-state has guaranteed internal and external security; substantiate the law; funded national welfare systems; provided the structures for popular representation, the national welfare system, the respect of human rights and justice; institutionalized public accountability; built the framework for economic and social activities; make policies for national and global activities (Bertucci & Alberti, 2001, p. 10). International organizations alone are inadequate to ensure global security. The inadequacy of international organizations to provide military intervention and peace in Bosnia, Kosovo and Rwanda's civil wars has negated the notions of alliance and co-operation that neo-liberals have upholded and confirmed the need for nation-states (Yılmaz & Akbulut, 2016, p. 76). Another proof supporting the indispensability of nation state within the context of security is uncontrollable conflicts in failed states. Due to globalization, in regions where the nation states are ineffective, conflicts have been out of nation state's control and anarchy and chaos have prevailed there. In these regions, none of the camps is capable of taking control and ceasing the clashes (Gray, 2001). While civil wars and economic decline are widespread in failed states, the nation-state play a vital role in overcoming such challenges in developed ones (Rodrik, 2012, p. 5).

Sustainability of global economic system is depended on the politics determined by nation-states. Because of the deficiency of supranational regulating and supervising authorities, nation-state agencies are in charge of regulating and supervising the markets. Disruptions in the regulation and control of markets are causing not only national but also global problems. 2008 GFC, caused by weak regulations on mortgage financing, is one of the obvious results of these disruptions. The national market must be under control and nothing else but the nation state will do so. Only nation states may settle an effective legal and regulatory framework in markets, legislate on property rights, anti-trust regulations, bankruptcy laws, promote transparent and efficient banking and financial institutions, sound monetary policies, simplificate bureaucratic procedures and regulate the registration and licensing of businesses, constitute an independent and effective judicial systems (Bertucci & Alberti, 2001, p. 19). Through the adoption of market-oriented policies and regulations, it can be stated that participation of national governments in allowing interdependence and economic integration of specific activities is vital (Cable, 1995, p. 3).

The nation state itself is the one that breaks crises that global system faces. The global crisis has showed the incapability of neo-liberal economic policy in regulating markets. Thus, in long-run, it is expected to return to strict state-controlled economic policies (Egedy, 2012, p. 156). While the nation state became fashionable again, transnational and subnational groups became outdated. The financial crisis could be solved by monetizing the net assets of societies to correct financial imbalances. This measure can be taken by only state which can use its sovereignty and credibility, based on the potency of taxing the economy and underwriting the financial system (Friedman, 2008).

There is no international mechanism more effective than the nation state. Nation-state is the one who find solutions to global problems. The League of Nations, established to prevent the resurrection of a kind of destruction created by the First World War, failed and the United Nations, includes highest number of participants globally, has had limited success. Since the fall of the USSR, there has been a tendency to view the world in terms of global institutions (Friedman, 2008). But, as a most effective international structure, UN even does not prevail in the global interests. The Russo-Georgian war raised the suspicions about the future of the multinational military alliances in which each member consulted its own national interest. It also showed weakness of NATO and Europeeans (Friedman, 2008). In 2008, none of these institutions functioned. The Europeans do not act in a body. After the GFC, it is no longer fair to talk about Europe as a single entity, about NATO as a fully functioning military alliance, or about a world in which the nation-state is obsolete. The only institutions did function after GFC effectively were national ones (Friedman, 2008).

The side effects of the industrialization have reached to enourmus level that harms environment and human health. Struggling with these side effects brings additional cost, social cost, and the burden of this cost is recovered by the states. Besides protecting the environment and human health, the primary authority to take measures to reduce these costs is the nation state. In addition, some of the public services like social security, internal and externial security, law enforcement and judgement can not be transferred to the private sector or can not be carried out in similar ways in the private sector (Bertucci & Alberti, 2001, p. 17). On the other hand, some of the public services such as public health, education, sewage infrastructure, and transport and communication infrastructures are not accepted by private sector, depending on the huge amount of costs, even if benefitting from these services. State's role is to secure for citizens to access these services which are essential for taking advantages of globalization (Bertucci & Alberti, 2001, p. 8).

The causes of First and Second World Wars were unenabling to share the energy and raw material resources. If a Third World War is to come, its cause may be nothing but market share and this war also breaks out between states directly and corporations indirectly. Global arena is a battle ground for states competing to provide and maintain economic, military and political superiority (Wallerstein, 1974). One of these tripods, economic superiority, is directly linked to the corporations of these states. The profits that these companies earn add value to the national economies of the countries they belong to. An economic competiton between the transnational corporations may pit the nation-state or state blocks against others. This competition sometimes leads to economic and political sanctions, and sometimes it can lead to war between countries. In this context, it can be said that the nation-state will continue its existence in the global economic system.

Globalization has affected crime and crime fighting. Depending on the paralyzed nation state legitimacy, the nation-state system turned into a gangland (Dasgupta, 2018). The regulations for unimpeded movement of financial resources and the development of international trade have facilitated the movement of illegal goods and crime revenues. These illicit activities and revenues sourced from these activities have been impending both global and national securities. Despite global measures such as United Nations Convention against Transnational Organized Crime and its protocols, the nation state has dominant role in struggle against transnational organized crime and terrorism. There have been many factors shaping this dominance. First of all, states define illicit activities (Andreas, 2011, p. 409). If an activitiy is not defined as a crime depending on the politicial, social, administrative and economic reason, this activity can not be prevented globally. Second, states monopolize the power to criminalize (Andreas, 2011, p. 409). There has been lack of an effective international law enforcement unit. INTERPOL at global level and EUROPOL at European level can be given as two examples of international police organizations, but these two organizations can only provide efficiency in proportion to the support provided by the nation states. Third, there is no jurisdiction to implement effective and compelling measures in the global arena. As a principal judicial organ of the United Nations, The International Court of Justice (ICJ) is one of the global jurisdictions but its authority is not absolute but optinal. So, the only organization capable of taking measure against transnational crime and terrorism is nation state.

Globalization is an outmoded term. It had been popular for a short-term just after the USSR demolished. However, today's world is multi-polar and these poles are made up of nation-state blocks. In addition to US- Europa (western) coalition, recovered-Russia after the demolition of USSR; China as an inheritor of Confucius Civilization; Brazil as a representative of South America and India are core candidate powers of these state-blocks. Moreover, BREXIT and other national movements in Europe, Trump Government policies in US indicate that the end of the core structure of western globalization is circling the drain. As the agents of globalization, WB and IMF have been seen hardly believable. The decision-making mechanism of the United Nations has been criticized recently. Russia-Georgian War and Russia-Ukrain War has weakened NATO's credibility. All these cases demonsrate that, in case of any dilemma, nation-states first prefer to protect their own national interests, and they defend the global interests if and only if the global interests do not collide with their owns.

References

Akıllı, E. (2010). Laeken Zirvesinden Lizbon Antlaşmasına: Anayasallaşamayan anayasallaşma süreci. *Uluslararası Hukuk ve Politika, Cilt.6 (24),* 35-54.

Altman, R. C. (2009). Globalization in retreat: Further geopolitical consequences of the financial crisis. *Foreign Affairs*, *Vol. 88 (4),* 2-7.

Andreas, P. (2011). Illicit globalization: Myths, misconceptions, and historical lessons. *Political Science Quarterly, Vol. 126 (3),* 403-425.

Archick, K. (2017). *The European Union: Current challenges and future prospects*. Congressional Research Service, CRS Report.

Arrighi, G. (2005). Hegemony unraveling I. *New Left Review, II (32/33)*, 23-80.

Aslan S. (2009). Küresellesmenin ulus devletlere etkisi. *Dumlupınar Üniversitesi SBE Dergisi, Sayı 25,* 289-298.

Barkin, J.S. & Cronin, B. (2009). The state and the nation: changing norms and the rules of sovereignty in international relations. *International Organization 48*, 107-130.

Barrow, C.W. (2005). The return of the state: Globalization, state theory, and the new imperialism. *New Political Science, 27*, 123-145.

Bertucci, G. & Alberti, A. (2001). *Globalization and the role of the state: Challenges and perspectives*. United Nations Online Network in Public Administration and Finance, Retrieved June 25, 2008 from http://unpan1.un.org/intradoc/groups/public/documents/un/unpan006225.pdf

Bresser-Pereira, L. C. (2008). Globalization, Nation-state and Catching up. *Brazilian Journal of Political Economy, vol. 28 (4) (112*), 557-577.

Cable, V. (1995). *What future for the state*, in Deadalus, March 22.

Dasgupta, R. (2018, April 5). *The demise of nation state*. Retrieved June 20, 2018 from https://www.theguardian.com/news/2018/apr/05/demise-of-the-nation-state-rana-dasgupta

Eckman, J. (2017, January 21). *Globalism vs. nationalism: The ideological struggle of the 21st century*, Retrieved June 20, 2018 from https://graceuniversity.edu/iip/2017/01/globalism-vs-nationalism-the-ideological-struggle-of-the-21st-century/

Egedy, T. (2012). The effects of global economic crisis in Hungary. *Hungarian Geographical Bulletin 61 (2)*, 155–173.

Erne, R. (2011). *European Unions after the crisis*. UCD Dublin European Institute Working Paper 11-1, May 2011.

Estévez, A. (2017, May 25). *Globalisation isn't dead, it's just shed its slick cover story*, Retrieved June 20, 2018 from http://theconversation.com/globalisation-isnt-dead-its-just-shed-its-slick-cover-story-74297.

European Commission. (2017). *Reflection paper on harnessing globalisation*, European Commission COM 240 of 10 May 2017, Brussels.

Evans P. (1997). The eclipse of the state?. *World Polity, 50,* 62–87.

Farrar, J. H. (2012). Globalisation, the global financial crisis and the reinvention of the state. *Singapur Academy of Law Journal, 24*, 367-399.

Ferguson, N. (2016). Populism as a backlash against globalization - historical perspectives. *Journal of International Relations and Sustainable Developments, Autumn 2016 / Issue No.8*, 12-21.

Friedman, G. (2016, September 28). *How 2008 changed everything*. Retrieved June 23, 2018 from https://geopoliticalfutures.com/how-2008-changed-everything/

Friedman, G. (2008, October 27). *2008 and the return of the nation-state*. Retrieved June 19, 2018 from https://worldview.stratfor.com/article/2008-and-return-nation-state.

Gabriela, S. M. (2013). The role of international organizations in the global economic governance – an assessment. *Romanian Economic and Business Review – Special issue 2013,* 308-317.

Goldmann, K. (2002). Internationalisation and the nation-state: Four issues and three non-issues. *European Journal of Political Research 41,* 281–305.

Gow, D. (2015). Globalization and its discontents. *Georgetown Journal of International Affairs, Vol. 16, (1),* 52-59.

Gray, J. (2001, September 24), *The era of globalisation is over*. The New Statesman, Retrieved June 19, 2018 from http://www.i-p-o.org/globalization-gray.htm.

Habermas, J. (2002). *Küreselleşme ve milli devletlerin akibeti*. Çev: Medeni Beyaztaş, Bakış Yayınları, İstanbul.

Harvey, D. (2005). *A brief history of Neoliberalism*. Oxford, England: Oxford University Press.

Harvey, D. (2003). *The new imperialism*. Oxford, England: Oxford University Press.

Kalın, İ. & Esposito, J. (2011). *İslamofobi: 21.Yüzyılda çoğulculuk sorunu*. Translated from English by: İsmail Eriş, İnsan Yayınları, İstanbul.

Karyelioğlu, S. (2012). Ulus devlet ve milliyetçiliğin tarihsel dayanaklari ve küreselleşmenin ulus devlet ve milliyetçilik üzerindeki etkileri. *ETHOS: Felsefe ve Toplumsal Bilimlerde Diyaloglar, 5(1)*, 137-169.

Kennedy, P. (1993). *Preparing for the twenty- first century*. New York: Random House.

Konak, N. (2011). Ekonomik küreselleşme ve ulus-devlet: Kuramsal yaklaşımlar. *Hacettepe Üniversitesi Edebiyat Fakültesi Dergisi, 1,* 149-164.

Lewellen, T. C. (2002). *Slouching toward globalization, anthropology of globalization: Cultural anthropology enters the 21st century*. Westport, CT, USA: Greenwood Press

Myint, T. (2011). Globalization and the institutional dynamics of global environmental governance. *Indiana Journal of Global Legal Studies, Vol. 18 (1),* 395-420.

Naím, M. (2009). Globalization. *Foreign Policy, No. 171*, 28-30.

Nolan, P. (2010). America and the crossroads of capitalist globalization. *Challenge, Vol. 53 (6),* 77-92.

Offe, C. and Wiesenthal, H. (1985), Two logics of collective action: Theoretical notes on social class and organizational form. in C. Offe, *Disorganized Capitalism*, Cambridge: Polity, 175-220

Pieterse, J. N. (2009). *Twenty-first century globalization, paradigm shifts in development, Doing Good or Doing Better*. Amsterdam University Press.

Pinder, S. O. (2011). The nation state in the era of globalization: Some Challenges, *International Journal of Humanities and Social Science Vol. 1 No. 2,* 139-148.

Robinson, W.I. (2001). Social theory and globalization: The rise of a transnational state. *Theory and Society, 30,* 157-200.

Rodrik, D. (2018). Populism and the economics of globalization. *Journal of International Business Policy, Accepted: 8 December 2017.*

Rodrik D. (2012). Who needs the nation-state?. *Economic Geography 89(1),*1–19.

Sampson, T. (2017). Brexit: The economics of international disintegration. *The Journal of Economic Perspectives, Vol. 31, No. 4,* 163-184.

Schweller, R. (2011). Emerging powers in an age of disorder. *Global Governance 17(3),* 285–297.

Stokes, D. (2018). Trump, American hegemony and the future of the liberal international order. *International Affairs 94 (1),* 133–150.

Streeck, W. (2011). The crises of Democratic Capitalism. New Left Review 71, 1-25.

Stuenkel, O. (2013). The Financial Crisis, Contested Legitimacy, and the Genesis of Intra-BRICS Cooperation. *Global Governance 19 (2013),* 611–630

Suter, K. (2008). The future of the nation-state in an era of globalization. *Medicine, Conflict and Survival, 24:3,* 201-218

Uygun, O. (2004, July 2). *Küresellesme ve değisen egemenlik anlayışının sosyal haklara etkisi*. Retrieved June 10, 2018 from http//www.anayasa.gov.tranyarg20uygun.pdf.

Wallerstein I. (1974). *The modern world-system*. New York: Academic Press.

Weiss, L. (Ed.). (2003). *States in the global economy: Bringing democratic institutions back in*. New York: Cambridge University Press.

Wigmore, T. (2015, October 8). *Why are right wing parties thriving across Europe?.* Retrieved May 20, 2018 from https://www.newstatesman.com/culture/observations/2015/10/why-are-right-wing-parties-thriving-across-europe.

Wolf, M. (2017, January 24). *Donald Trump and Xi Jinping's battle over globalization.* Financial Times, Retrieved May 20, 2018 from https://www.ft.com/content/74b42cd8-e171-11e6-8405-9e5580d6e5fb

Wood, E. M. (2003). *Empire of capital*. London: Verso.

Yılmaz, E. A. & Akbulut, A. (2016). Küreselleşme sürecinde ulus-devletin rolü ulus-devletler güçleniyor mu?, *Mehmet Akif Ersoy Üniversitesi Sosyal Bilimler Enstitüsü Dergisi Cilt.8 (16),* 71-88.

PART II.

CHAP 8.

TOWARDS A NEW FINANCIAL SYSTEM: END OF THE DOLLAR ERA AND RISE OF A MULTI-CURRENCY SYSTEM

*Mehmet GÜNAL**

I- Introduction: The Role and Importance of Reserve Currency

There's been a lot of discussion and assesment lately about the US Dollar losing its position as the world's major reserve currency. A reserve currency is simply one that is both global and is accepted for trade worldwide. The dollar, the euro and the yen are the most accepted currencies with the dollar making up 64 percent of all foreign exchange reserves. Before looking at today's discussions and assesments about the US dollar's status as the global reserve currency, we will give some brief background information on historical development.

The dollar has been a major reserve for over a century, but it became the dominant one after World War II. The United States was by far the most powerful nation after the war and held far more gold than anyone else as well. The US offered to exchange gold for dollars held by foreign countries and thus the gold standard became accepted worldwide.

In the late 1940s, the world was able to recover from the war thanks to a strong, stable dollar and the US prospered as well. But there was trouble, while other countries' currency reserves were backed by gold, the US could print dollars backed by US Treasury Bonds. Between President Johnson's Vietnam War, his Great Society programs, and the rampant inflation they caused, the US was forced to print more dollars than could be backed by gold.

This caused a run on gold so extensive that in 1971, President Nixon felt obligated to stop backing dollar reserves with it. The dollar became a fiat currency, one backed by an arbitrary decree from the US and the floating exchange rates we have today were born. As a result, the price of gold tripled, the dollar started its decline to being worth one-sixth of what it was prior to decoupling, and inflation was running at 15 percent by the end of the decade.

Taking the dollar off of the gold standard along with the Arab Oil Embargo sent it plunging and the US needed something to replace it. US Secretary of State Henry Kissinger came

* Assoc. Prof. Dr., Ankara Hacı Bayram University, College Of Economic And Administrative Sciences, Department Of Economics, Beşevler/Ankara, TURKEY, gunal07@yahoo.com

up with a brilliant idea that became known as the Petrodollar. Saudi Arabia had become the world's leading oil producer and exporter and the US was their biggest customer. The Saudis are 50 miles from Iran and 25 miles from Israel at the nearest points, and they don't get along with either one. So, when Kissinger approached them about pricing all Saudi oil in US Dollars in exchange for protection from their hated neighbors, a deal was made. This agreement gave the US what the rest of the world called an "exorbitant privilege."[1] Every nation had to keep dollars in reserve to pay for oil. And the Saudi's got the 13 other OPEC Nations to go along as well. This allowed the US to print as many dollars as she wants. Unfortunately, the result is that the US is over $20 trillion in debt and has over $100 trillion in unfunded liabilities. According to Bertell (2018), Russia and China want to see an end to the Petrodollar system. The Russians are now the world's largest oil producer and the Chinese are now the world's largest oil importer and they have made an arrangement to price oil in Chinese Yuan eliminating the dollar altogether.[2]

Countries hold the US dollar in reserves not in form of actual dollars, but the US Treasury Bonds. The Chinese are the world's biggest Treasury Bond holders, but they've been net sellers for the last three years. And they've been buying gold with the proceeds. The Russians have also been buying gold in massive amounts. They take the Yuan the Chinese pay them for oil and then turn around and buy it on the Shanghai Exchange. What the Russians and Chinese both want is to create an alternate reserve currency to the US Dollar.

So, the Russians and Chinese are accumulating gold in immense quantities because they want to create a reserve backed by gold and not controlled by any country. Their answer is to use the International Monetary Fund's Special Drawing Right (SDR). SDR's, which started in 1969 and are already used for international transactions, would be backed by gold in the Sino-Soviet plan and used as a reserve currency. The question then becomes; "does a country want to hold SDR's backed by gold, or dollars backed by a United States over $120 trillion in debt?"

If this were to happen, the dollar would collapse, global investors would rush to other currencies, gold or commodities. Interest rates would skyrocket, import prices and inflation would take off and we would probably see a depression. In fact, this is not only hypotetical assumption or wishfull thinking. This has been widely discussed among many peolpe such as academics, politicans, financial market analysts and experts.

1 This term means that the system does not treat all countries equally. Rather it provides an unfair advantage to the US because the Dollar is the reserve currency of the World. For a detailed discussion Robert N. McCauley, "Does the US dollar confer an exorbitant privilege?" Journal of İnternational Money and Finance, Vol.57, October 2015, p.1-14. For more comprehensive analysis, see the book of Barry Eichengreen, *Exorbiant Privilege: The Rise and Fall of the Dollar and the Future of International Monetary System.*

2 Moneywatchers: The demise of the dollar, By Nick Bertell, For the Times-Standard, 03/10/18; http://www.times-standard.com/article/NJ/20180310/BUSINESS/180319987

II- Importance and Advantage of Being the World's Reserve Currency

The reserve currency is the money most commonly accepted for international trade. Having money with a reserve currency status enables a nation to dominate and control the world's financial markets, as their currency is used for international trade and transactions. The US has the ability to maintain about $21 trillion national debt largely because the dollar is the reserve currency.

The relative strength of the US economy supports the value of its currency. It's the reason the dollar is the most powerful currency. Around $580 billion in US bills are used outside the country. That's 65 percent of all dollars. That includes 75 percent of $100 bills, 55 percent of $50 bills and 60 percent of $20 bills. Most of these bills are in the former Soviet Union countries and in Latin America.[3]

Cash is just one indication of the role of the dollar as a world currency. More than one-third of the world's gross domestic product comes from countries that peg their currencies to the dollar. That includes seven countries that have adopted the dollar. Another 89 keep their currency in a tight trading range relative to the dollar.[4]

Besides, in the foreign exchange market, the dollar rules. More than 85 percent of forex trading involves the US dollar. Furthermore, 39 percent of the world's debt is issued in dollars. As a result, foreign banks require a lot of dollars to conduct business. For example, during the 2008 financial crisis, non-US banks had $27 trillion in international liabilities denominated in foreign currencies. Of that, $18 trillion was in US dollars. The US Federal Reserve increased its dollar swap line to keep the world's banks from running out of dollars.

The dollar is held by foreign governments in their currency reserves. They wind up stockpiling dollars as they export more than they import. They receive dollars in payment. Many of these countries find that it's in their best interest to hold on to dollars because it keeps their currency values lower. Two of the largest holders of US dollars are Japan and China.

As the dollar declines, the value of their reserves also decreases. As a result, they are less willing to hold dollars in reserve. They diversify into other currencies, such as the euro or even the Chinese yuan. This reduces the demand for the dollar. It puts further downward pressure on its value.

As of the first quarter 2018, foreign governments held $6.5 trillion in US dollar reserves. That's 62 percent of total allocated reserves. It's down slightly from the 63 percent held in Q1 of 2008. At the same time, the percentage of euros held in reserves decreased from 27 percent in 2008

3 Strength and Power of the US Dollar: Three Reasons Why the U.S. Dollar Is So Powerful, Kimberly Amadeo; Updated February 19, 2018, https://www.thebalance.com/power-of-the-u-s-dollar-3306267.

4 Kimberly Amadeo, "Why the Dollar Is the Global Currency?" February 19, 2018 https://www.thebalance.com/world-currency-3305931.

to 20 percent in 2018. Chinese renminbi has a share of 1.39 percent, while Japanese yen 4.81 percent. This occurred because holders diversified into other currencies.1[5]

A nation with a reserve currency can simply print money to pay its debts. In past centuries nations such as Britain, France, Spain, the Netherlands, and Portugal lost their status as super powers in part when their money lost reserve currency status. Reserve currencies collapse because people no longer trust or believe in the governments that issue them.

III - Analysis of Why the US Dollar Falls

Recently, a number of financial experts started to say that the US dollar is no longer a reliable and dependable currency and that its downfall is inevitable. There are even some experts who think the dollar is so unstable that the Chinese Yuan will soon become the world's reserve currency. One of these financial experts, Micheal Pento, investment advisor and financial strategist stated that "Our addictions to debt and cheap money have finally caused our major international creditors to call for an end to dollar hegemony and to push for a 'de-Americanized' World."[6]

Another expert, Euro Pacific Capital CEO Peter Schiff said that: "I think we're heading to a dollar crisis and a sovereign debt crisis. It's going to be different than what happened in 2008 which was a loss of confidence in the private sector, mortgage backed securities and the banks."[7] Amid the chaos, the US government bailed out financial institutions in a bid to rescue the desperate situation. Schiff added: "That was the wrong thing to do because it enabled the Federal Reserve to create an even bigger bubble than the one that burst in 2008. Now we're on the precipice of a bigger decline but this time it's not just the private sector, it's the foreign market, the dollar."

Schiff believes the weak currency will soon create a crisis in bonds, which are loans issued by the government to raise money from its citizens. Then the US government will have to make a choice: default on the national debt or destroy the dollar. In the interim the US is going to have a serious downturn.

Another US expert, businessman Jim Rogers believes the next financial crash may already unknowingly be under way and warned of the impending crisis. He said: "In America we have had economy problems every four to eight years since the beginning of the Republic. It's been nine years since the last one so we're overdue. In 2008 we had a problem because of too much

5 The International Monetary Fund reports this quarterly in its COFER Table. http://data.imf.org/regular.aspx?key=41175

6 Pento wrote in an op-ed piece for CNBC; How The Coming Dollar Collapse Will Leave Americans Destitute, March 18, 2014. https://www.offthegridnews.com/financial/how-the-coming-dollar-collapse-will-leave-americans-destitute/

7 'There's no way out' US heading for total currency collapse in Wall Street chaos; Tom Towers, Daily Star, 6th February 2018; https://www.dailystar.co.uk/news/latest-news/644601/Financial-crisis-2017-anniversary-2008-global-crash-America-dollar-crisis-Peter-Schiff

debt, now the debt is much, much, much higher everywhere in the world. The next time we have a financial problem it's going to be the worst in your lifetime."[8]

In addition to these experts, over half of 200 international institutional investors surveyed by the Economist in 2014 think that the Yuan will eventually replace the dollar as the world's reserve currency. The survey of 200 institutional investors - 100 headquartered in mainland China and 100 outside of it - published by State Street and the Economist Intelligence Unit in February 2014 found 53 percent of investors think the renminbi will surpass the US dollar as the world's major reserve currency.[9] Optimism was higher within China, where 62 percent said they saw a redback world on the horizon, compared with 43 percent outside China.

While the dollar still retains its might, and is universally accepted in preference to other fiat currencies, it is becoming clear that in 2018 the dollar's primacy will be challenged by the yuan as the pricing medium for energy and other key industrial commodities. After all, the dollar's role as the legacy trade medium is no longer appropriate, given that China's trade is now driving the global economy, not America's. If the dollar's future role diminishes, then there will be surplus dollars, which unless they are withdrawn from circulation entirely, will result in a lower dollar on the foreign exchanges. While it is possible for the Fed to contract the quantity of base money, it would also have to discourage and even reverse the expansion of bank credit, which would be judged by central bankers to be economic suicide. For that to occur, the US Government itself would also have to move firmly and rapidly towards eliminating its budget deficit. But that is being deliberately increased by the Trump administration instead. In addition to the above mentioned assesments, a combination of geopolitical pressures could spark the end of the US dollar as the world's reserve currency.

In a quarterly outlook note titled "The world is turning its back on the almighty dollar," John Hardy, the head of FX strategy at Saxo Bank, claimed that the US currency was "increasingly dysfunctional" and there was an urgent need to replace it.[10]

The currencies analyst highlighted these three geopolitical issues currently putting pressure on the dollar's status: (i) The ongoing rise of China as it assumes a more prominent role in global trade and financial markets and in particular how it will manage policy and unwinding the excesses of its credit bubble without upsetting its domestic economy and the global economy; (ii) The North Korean regimes striving to maintain credibility and untouchability as a nuclear power

8 Fears next financial crash has already started – and will be worse than 2007 disaster; Tom Towers, Daily Star, 6th February 2018;https://www.dailystar.co.uk/news/latest-news/644562/Financial-crisis-2017-anniversary-2008-global-crash-Northern-Rock-Jim-Rogers.

9 Yuan to supersede dollar as top reserve currency: Survey, Ansuya Harjani, 26 Feb 2014. https://www.cnbc.com/2014/02/26/yuan-to-supersede-dollar-as-top-reserve-currency-survey.html

10 Three reasons the world could turn its back on the US dollar; David Reid, 11 Oct 2017, CNBC.com; https://finance.yahoo.com/news/three-reasons-world-could-turn-123619107.html

and how this impacts China-US relations, but also how Japan deals with this threat in terms of domestic as well as foreign policy; (iii) The loosening of the US-Europe transatlantic alliance.

Hardy extracts "de-dollarization" as a direct theme that can be pulled from China's situation as the country looks to encourage demand for its yuan. China is eyeing the benefits of having its own currency play a larger role and to supplant the USD's role in global trade. The initial focus is on the global oil trade, where it has announced the intention of buying oil in yuan and allowing trade partners to settle that yuan in gold. Settling in gold is a clever move by Beijing as it provides oil-exporting countries with a greater degree of comfort. China is the world's largest importer of crude and the analyst forecasted that maintaining a stable currency while buying oil in yuan will be the first steps to increased global demand for renminbi.

On the other hand, Russia and Iran, long suffering at the hands of US financial and trade sanctions, will be happy participants in this scheme and could provide critical mass. The bigger test will be whether traditional US allies, such as Saudi Arabia, would be willing to risk the ire and financial might of the US by agreeing to receive yuan for oil.

The US dollar became the reserve currency in the 1970s because Saudi Arabia agreed to accept only the dollar as payment for oil. Now the major producers like Russia and Iran are now accepting Yuan in payment for oil. that Chinese President Xi Jinping and Russian leader Vladimir Putin made a deal, and thus Russian companies can borrow money directly from China in exchange for oil.

One of America's oldest and closest allies, Australia, have taken the first step to ending the dollar's reign as the reserve currency. CNBC reported that the Yuan will now be traded in Australia's financial markets.[11] The Australian government has endorsed the deal because China is Australia's biggest trading partner. Among other things that will let Chinese customers pay Australian firms in Yuan. China is the biggest market for Australia's exports such as iron and coal.

IV- History of Currency Collapses

In a recent article, Alasdair Macleod explains why a dollar collapse is inevitable, by looking at the history of monetary system. He describes the errors that led to the two previous episodes, the first was in the late 1920s which led to the dollar's devaluation in 1934, and the second was 1966-1968 which led to the collapse of the Bretton Woods System. Macleod (2018) derives lessons from these two episodes relevant to understanding the position today. He states because gold is no longer officially money, it will not stop the collapse of the dollar again. Even

11 Yuan takes another step forward as a world currency, Dhara Ranasinghe, CNBC,
Mon, 17 Feb 2014. https://www.cnbc.com/2014/02/17/yuan-takes-another-step-forward-as-a-world-currency.html

though gold is now officially excluded from the monetary system, it does not save the dollar from a third collapse and will still be its yardstick.[12]

By using a quote from the press conference of General Charles de Gaulle in 1965, in which he warned that the gold exchange standard of Bretton Woods would end in tears unless its shortcomings were addressed by a return to a gold standard, Macleod explains the difeference between gold standard and gold exchange standart as General de Gaulle and Jacques Rueff, his economic advisor, have done.

Rueff wrote a famous book later in 1971, The Monetary Sin of the West, on this issue looking at the American dollar, the balance of payments, the gold standard, inflation and Eurodollars, and details the steps necessary to preserve the US monetary system. [13]

Influenced by Rueff, Charles de Gaule warned the West with following words: "Naturally, the smooth termination of the gold-exchange standard, the restoration of the gold standard, and supplemental and interim measures that might be called for, in particular with a view to organizing international credit on this new basis, will have to be deliberately agreed upon between countries, in particular those on which there devolves special responsibility by virtue of their economic and financial capabilities." In order to understand what Charles de Gaulle meant and why the US dollar collapsed twice in history, one has to understand the difference between gold standard and gold exchange srandard. The gold exchange standard evolved in the 1920s as America and Britain went to the aid of European countries, struggling in the wake of the Great War. It allowed the expansion of national currencies under the guise of them being as good as gold, but it was not. In modern terms, it was as different as paper gold futures are to the possession of physical gold today.

A gold standard is commodity money, where gold is money, and monetary units are defined as a certain fixed fineness and weight of gold. The monetary authority is obliged by law to exchange without restriction gold against monetary units and vice-versa, and there are no restrictions on the ownership and movement of gold. Under a gold exchange standard, the only holder of monetary gold is the issuer of the domestic monetary unit as a substitute for gold. The monetary authority undertakes to maintain the relationship between the substitute and gold at a fixed rate. Only money substitutes (bank notes and token coins – gold being the money) circulate in the domestic economy. The monetary authority exchanges all imports of monetary gold and foreign currency into money substitutes for domestic circulation at the fixed gold exchange rate. The monetary authority holds any foreign exchange which is also convertible into gold on a gold exchange standard at a fixed parity, and treats it to all extents and purposes as if it is gold.

12 Alasdair Macleod, Why A Dollar Collapse Is Inevitable? Goldmoney Insights, April 05, 2018; https://www.goldmoney.com/research/goldmoney-insights/why-a-dollar-collapse-is-inevitable

13 Jacques Rueff, **The Monetary Sin Of The West**, Translated By Roger Glémet, The Macmillan Company New York, New York, 1972 (French printing, Librairie Plon, 1971).

In the mid-sixties, Washington became increasingly alarmed that foreigners weren't playing by the assumed rule that they should take dollars and not redeem them for gold. By then, France and Germany between them had increased their gold holdings from 487.1 tonnes in 1948 to 7,089 tonnes at the time of de Gaulle's press conference, which had touched some very raw nerves.

It was clear that the dollar, with the overhang of foreign ownership, had become horribly overvalued, and so should have been devalued, perhaps to over $50 or $60 per ounce, for a gold peg to stick. A devaluation of this magnitude might have been sufficient at that time to stem the outflow of gold. Both Washington and American public opinion were set strongly against any devaluation. Instead, the London gold pool, designed to ensure the major central banks supported the Bretton Woods System, collapsed in 1968, when France withdrew from it. A dollar devaluation to $42.2222 shortly after was simply not enough, and in 1971 President Nixon suspended the Bretton Woods System, and the new regime of floating exchange rates that is still with us to this day began.

The dollar has enjoyed a considerably longer life as an unbacked state-issued currency than the mark did in the 1920s, but do not think the monetary factors have been much different. The Bretton Woods agreement, designed to make the dollar appear "as good as gold", was cover for the US Government to fund Korea, Vietnam and other foreign ventures by monetary inflation, which it did without restraint. That deceit ended in 1971, and today the ratio of an ounce of gold to the dollar has moved to about 1:1310 from the post-war rate of 1:35, giving a loss of the dollar's purchasing power, measured in the money of the market, of 97.3%.[14]

Since the Nixon shock in 1971, the Americans have been adept at perpetuating the myth of King Dollar, insisting gold now has no monetary role at all. By cutting a deal with the Saudis in 1974, Nixon and Kissinger ensured that all energy, and in consequence all other commodities, would continue to be priced in dollars. Global demand for dollars was assured, and the banking system of correspondent nostro accounts meant that all the world's trade was settled in New York through the mighty American banks. And having printed dollars to ensure higher energy prices would be paid, they would then be recycled as loan capital to America and her friends. The world had been bought, and anyone not prepared to accept US monetary and military domination would pay the price.

V- Similarity Between the Germany in the 1920s and the US Now

In monetary terms, this leads us to a further important parallel with Germany nearly a century ago, and that is the contraction of the territory and population over which the mark was legal tender then, and the acceptance of the dollar today. The loss of Germany's colonies in

14 Alasdair Macleod, "How quickly will the dollar collapse?" Goldmoney Insights, January 04, 2018. https://www.goldmoney.com/research/goldmoney-insights/how-quickly-will-the-dollar-collapse

Asia and Africa, Alsace-Lorraine to France, and large parts of Prussia to Poland, reduced the population that used the mark without a compensating reduction of the quantity of marks in circulation. Until very recently, most of the world was America's monetary colony, and in that context, she is losing Asia, the Middle East and some countries in Africa as well. The territory that offers fealty to the dollar is definitely contracting, just as it did for the German mark after 1918, and as it did for the Austro-Hungarians, whose Austrian crown suffered a similar fate.

The relative slowness of the dollar's decline so far should not fool us. The factors that led to the collapse of the German mark in 1923 are with us in our fiat currencies today. As von Mises put it, "If the practice persists of covering government deficits with the issue of notes, then the day will come without fail, sooner or later, when the monetary systems of those nations pursuing this course will break down completely."[15]

Updated for today's monetary system, this is precisely how the American government finances itself. Instead of printing notes, it is the expansion of bank credit, issued by banks licenced by the government with this purpose in mind, that ends up being subscribed for government bonds. The same methods are employed by all advanced nations, giving us a worrying global dimension to the ultimate failure of fiat currencies, whose only backing is confidence in the issuers.

Now that America is being forced back from the post-war, post-Nixon-shock strategy of making the dollar indispensable for global trade, the underlying monetary inflation of decades will almost certainly begin to be reflected in the foreign and commodity exchanges. There is little to stand in the way of the global fiat monetary system, led by the dollar, to begin a breakdown in its purchasing power, as prophesied by von Mises nearly a century ago. Whether other currencies follow the dollar down the rabbit hole of diminishing purchasing power will to a large extent depend on the management of the currencies concerned.

VI- The present situation of the Dollar

Cross-border monetary flows allow the US to have its privilege of foreigners financing its deficits. The approximate extent of the accumulated imbalances, that could lead to the dollar's collapse, can be estimated. The US balance of payments deteriorated from 1992 onwards, though those figures did not include military spending abroad, which has been a significant and unrecorded addition to dollars both in cash circulation outside America, and also to estimates of the balance of payments.[16] Official balance of payments figures are therefore understated and have been for at least a quarter of a century.

---

15 *Ludwig von Mises wrote his famous book, 'Stabilisation of the Monetary Unit – from the Viewpoint of Theory,' in the same year: 1923.*

16 Jacques Rueff, **The Monetary Sin Of The West**, Translated By Roger Glémet, The Macmillan Company New York, New York, 1972 (French printing, Librairie Plon, 1971).

More recently, from September 2008 the Fed began expanding its balance sheet by policies designed to increase commercial bank reserves, as a response to the financial crisis. That August, they were $10.5bn, increased to $67.5bn the following month, and peaked at $2,786.9bn in August 2014, since when there has been a modest decline. From our analysis of the run-ups to the two previous dollar crises, we know we should try to estimate how much of the increase was effectively funded from abroad. The US Treasury TIC Data gives us a fairly good steer to what extent this has happened. We find that between those dates, (August 2008 – August 2014) foreign ownership of dollars increased by $6,237.7bn, over twice as much as the increase in the Fed's record of commercial bank reserves.[17]

Since then, foreign ownership of dollars has increased a further $2,142.4bn to a record $18,694.1, even though bank reserves declined by $572bn.[18] In other words, the accumulation of dollars in foreign hands now stands at over 95% of US GDP. Another way of looking at it is to assess the market values of US securities held by foreigners and relate that to GDP, though this information is less timely. The build-up of foreign investment in America, in large measure the counterpart of dollar loans to foreigners, has been remarkable. At the time of the dot-com bubble, it had jumped to 35% of GDP, from less than 20% in the nineties and considerably less before. At over 90% of GDP in recent years, there can be no doubt that the next financial event, whether it be derived from a rise in interest rates or a general weakness in the dollar, can be expected to trigger a substantial flight out of the dollar.

The pricing of financial assets, and today's extraordinarily low interest rates indicate that a flight from the dollar is the last thing expected in financial markets. If they were still alive, de Gaulle and his economic advisor, Jacques Rueff, would be instructing the Eoropean Central Bank (ECB), as successor to the Bank of France, to dump all dollars for gold immediately, and probably to dump all other foreign fiat currencies for gold as well. However, today, it is likely that other actors will blow the whistle on the dollar, such as the Chinese, and the Russians.

For it is clear that when the over-valuation of the dollar is corrected, the downside of a dollar collapse is far greater than it was in the early-thirties or the early-seventies. All other fiat currencies take their value from the dollar, not gold. So, the destabilising forces on the dollar, the other unexpected side of Triffin's dilemma, could take down the whole fiat complex as well.

VII- When Will the US Dollar Collapse? Lessons from the Bretton Woods Era

In the introduction I mentioned the ideas of diferent experts on the collapse of the dollar. A recent assesment made by Ron Paul, who served as a Republican member of the US House

17 For details see the US Treasury's TIC data: https://www.treasury.gov/resource-center/data-chart-center/tic/Pages/ticpress.aspx

18 Reserves held at the Fed by January 2018.

of Representatives (1976–77, 1979–85, 1997–2013) is published by Nick Giambruno.[19] According to him, to better understand the answer to the elusive question of "When will the fiat US dollar collapse?", we have to watch the petrodollar system and the factors affecting it. This is critically important, because once the dollar loses this coveted status, the destruction of the dollar is going to wipe out the wealth of a lot people, and that will cause political and social consequences that will likely be worse than the financial consequences. Paul points out to three points to be understood: (i) You absolutely must be internationalized before the US dollar loses its status as the premier reserve currency. Internationalization is your ultimate insurance policy. (ii) The US dollar's status as the premier reserve currency is tied to the petrodollar system. (iii) The sustainability of the petrodollar system is linked to Middle East geopolitics.

Being victorious in Worl War II and possessing the overwhelmingly largest gold reserves in the world (around 20,000 tonnes) allowed the US to reconstruct the global monetary system with the dollar at its center in what was known as the Bretton Woods international monetary system. Simply put, the Bretton Woods system was an arrangement whereby a country's currency was tied to the US dollar through a fixed exchange rate, and the US dollar itself was tied to gold at a fixed exchange rate. Countries accumulated dollars in their reserves to engage in international trade or to exchange them with the US government at the official rate for gold ($35 an ounce).

By the late 1960s, exuberant spending from welfare and warfare, combined with the Federal Reserve monetizing the deficits, drastically increased the number of dollars in circulation in relation to the gold backing it and, naturally, this caused countries to accelerate their exchange of dollars for gold at the official price. The result was a serious drain in the US gold supply (20,000 tonnes at the end of World War II to around 8,100 tonnes in 1971, a figure supposedly held constant to this day) so, on August 15, 1971, Nixon officially ended convertibility of the dollar for gold to halt the gold outflow. The US defaulting on its promise to back the dollar with gold ended the Bretton Woods system.

The central justification that the gold–backed dollar had provided as to why countries held the dollar in their reserves and used it as a medium of international trade was now gone. With the dollar no longer convertible into gold, demand for dollars by foreign nations was sure to fall and with it, its purchasing power.

VIII- The Rise and Fall of the Petrodollar Sytem

OPEC passed numerous resolutions after the end of Bretton Woods, stating the need to retain the real value of its earnings (including discussions about accepting gold for oil), which resulted in the cartel significantly increasing the nominal dollar price of oil in the wake of August 15, 1971.

19 Nick Giambruno, "Timing the Collapse: Ron Paul Says Watch the Petrodollar," International Man, http://www.internationalman.com/78-global-perspectives/1047-timing-the-collapse-ron-paul-says-watch-the-petrodollar

If the dollar was to sustain its status as the world's reserve currency, a new arrangement would have to be constructed to give foreign countries a compelling reason to hold and use dollars and Nixon and Kissinger succeeded in retaining the dollar's premier status by bridging the gap between the failed Bretton Woods system and the emerging petrodollar system.

Between the years of 1972 to 1974 the US government completed a series of agreements with Saudi Arabia to create the petrodollar system. Saudi Arabia was chosen because of its vast petroleum reserves, its dominant influence in OPEC, and the perception that the Saudi royal family was corruptible.

In essence, the petrodollar system was an agreement that, in exchange for the US guaranteeing the survival of the House of Saud regime by providing a total commitment to its political and security support, Saudi Arabia would: (i) Use its dominant influence in OPEC to ensure that all oil transactions would be conducted only in US dollars. (ii) Invest a large amount of its dollars from oil revenue in US Treasury securities and use the interest payments from those securities to pay US companies to modernize the infrastructure of Saudi Arabia. (iii) Guarantee the price of oil within limits acceptable to the US and act to prevent another oil embargo by other OPEC members.

The need to use dollars to transact in oil, the world's most traded and most strategic commodity, provides a very compelling reason for foreign countries to keep dollars in their reserves. For example, if Italy wants to buy oil from Kuwait, it has to first purchase US dollars on the foreign exchange market to pay for the oil, thus creating an artificial market for US dollars that would not have otherwise naturally existed. This demand is artificial, since the US dollar is just a middleman in a transaction that has nothing to do with a US product or service. It ultimately translates into: (i) increased purchasing power and a deeper, more liquid market for the US dollar and Treasuries, (ii) and the unique privilege of the US not having to use foreign currency but rather using its own currency, which it can print, to purchase its imports, including oil. The benefits of the petrodollar system to the US dollar are indeed difficult to overstate.

The geopolitical sands of the Middle East have been rapidly shifting as evidenced by: (i) The faltering strategic regional position of Saudi Arabia, (ii) the rise of Iran which is notably not part of the petrodollar system, (iii) failed US interventions, and (iv) the emergence of the BRICS countries providing potential future alternative economic/security arrangements and all affect the sustainability of the petrodollar system.

The relationship between the US and Saudi Arabia is now deteriorating. The Saudis are furious at what they perceive to be the US not holding up its part of the petrodollar deal. They believe that, as part of the US commitment to keep the region safe for the monarchy, the US should have attacked their regional rivals, Syria and Iran, by now. This would suggest that they may feel that they are no longer obliged to uphold their part of the deal, namely selling their oil only in US dollars.

The Saudis have even gone so far as to suggest a “major shift” is underway in their relations with the US. To date, though, they have yet to match actions to their words, which suggests it may just be a temper tantrum or a bluff. In any case, it is truly unprecedented language and merits further watching. A turning point may really be reached when you start hearing US officials expounding on the need to transform the monarchy in Saudi Arabia into a “democracy” but don’t count on that happening as long as their oil is flowing only for US dollars.

The United States uses the power of petrodollars to enforce its foreign policy. But many countries don’t fight back. They are afraid it would mean the collapse of the petrodollar. For example, the United States sanctioned Iran for refusing to halt its development of potential nuclear weapons. Similarly, it hit Russia with trade embargoes for invading Crimea and creating a crisis in Ukraine. As a result, these countries signed a five-year trade deal with each other that is worth $20 billion. Critically, it is not priced in dollars, and it includes the sale of Iran's oil.

Venezuela and Iran also signed oil contracts in their currencies instead of petrodollars. China called for a replacement of the US dollar as a global currency. Ironically, it is one of the largest foreign holders of the dollar. China influences the US dollar by pegging its currency, the yuan, to it.

Will these rogue attacks cause a dollar collapse? No, at least not for the near future. That is because there is no good alternative yet. The euro is the second-most circulated currency. It has undergone attack from within, thanks to the Eurozone crisis. And the yuan is not redy yet.

IX- Developments in International Financial System and Establisment of BRICS’ New Banks: NDB and AIIB

Despite the fact that the US dollar loosing its credibility as a reserve currency, there is no strong enough alternative yet. However there has been very important developments in international economic and financial system. For example, establishment of New Development Bank (NDB) and Asian Infrastructure Investment Bank (AIIB) of BRICS countries is a very important milestone in building a new financial architecture.

Before getting into details of these new banks we have to give some background knowledge about multilateral development banks (MDBs). Multilateral development banks (MDBs) are institutions that provide financial support and professional advice for economic and social development activities in developing countries. MDBs play a crucial role in supporting international development and eliminating poverty.

The existing MDB system was launched shortly before the end of World War II, in 1944, when representatives of 44 Allied nations gathered at the Bretton Woods Conference.[20] The International Bank for Reconstruction and Development (IBRD) was established as one of the pillars of the new system, with the main task to finance the post-war reconstruction of European nations. Upon completion of this mission, the IBRD focused on assisting developing countries.

The process of creating other multilateral development institutions can be divided into three periods.[21] The first period coincided with the decolonization wave of mid-1950s to mid-1970s. The World Bank Group (WBG) was created with the IBRD in its core. It included the International Finance Corporation (IFC) established in 1956 to mobilize private investment for development, and the International Development Association (IDA) set up in 1960 to provide grants or interest-free loans to the poorest countries. Apart from the WBG, several regional development banks were created in these two decades, including the Inter-American Development Bank (IDB) in 1959, the African Development Bank (AfDB) in 1963, the Asian Development Bank (ADB) in 1966, and some other major banks, each responsible for promoting economic and social development in respective regions, similar to the IBRD in terms of their governance mechanisms and operational policies, and dominated by developed Western countries.

The second period is associated with the Soviet Union disintegration and fall of communist regimes in Central and Eastern Europe. The European Bank for Reconstruction and Development (EBRD) established in 1991 to promote market economy in these countries became the last of the major "traditional" MDBs. Thus, all previous waves of establishing new MDBs were related to major shifts in the global economic or political landscape. More than 20 years later, the growing demand for infrastructure financing, insufficient potential of "traditional" MDBs to respond to this demand and their terms of funding conditionality, as well as developing countries' aspiration for a greater influence in the global economic governance reflecting their shares in the world economy led to the creation of the New Development Bank (NDB) and Asian Infrastructure Investment Bank (AIIB). Focused on infrastructure and sustainable development and controlled by emerging market economies, these banks are sometimes referred to as institutions of the new type that can "help rebalance multilateral development finance away from western dominance."[22]

At the Fortaleza BRICS summit in July 2014, the presidents of five countries signed the Agreement on the New Development Bank. A few months later, on 24 October 2014, more than 20

20 Marina Larionova explains this proces in detail in Larinova et.al (2016). See Larionova, M. V. And A. V. Shepelov, "Potential Role of the New Development Bank and Asian Infrastructure Investment Bank in the Global Financial System," **International Relations**, 2016, 16 (4), pp.700-716.

21 See Wang, H. (2016). New Multilateral Development Banks: Opportunities and Challenges for Global Governance. Part of Discussion Paper Series on Global and Regional Governance of the Council on Foreign Relations. http://i.cfr.org/content/publications/attachments/Discussion_ Paper_Wang_MDBs_OR.pdf

22 See Reisen, H. (2015) "Will the AIIB and the NDB Help Reform Multilateral Development Banking?" Global Policy, 6(3), pp. 297—304. URL: http://onlinelibrary.wiley.com/doi/10.1111/17585899.12250/epdf

Asian nations signed a Memorandum of Understanding on the establishment of the Asian Infrastructure Investment Bank. The establishment of these institutions with an apparent leadership of emerging economies was perceived as a challenge to the "Bretton Woods global financial order led by the World Bank, IMF and regional multilateral development banks."[23] However, the new institutions birth is the result of economic processes and the response by the NDB and AIIB founders to the demand for infrastructure finance rather than the desire to oppose the existing system. The main cause for the establishment of new MDBs is persistent lack of investment in infrastructure, especially in developing countries.

Additionally, founding the new banks emerging countries pursue their national interest by resorting to the NDB and AIIB funds and their capasity to mobilize finance. For example, the Chinese Belt and Road Initiative may benefit from the establishment of the AIIB, as it focuses on connectivity an economic cooperation among China and other Euroasian countries. Briefly,

New MDBs are different from traditional ones in terms of their basic characteristics, which reflect the role emerging economies play in the new institutions. For instance, the NDB and AIIB headquarters are located in Shanghai and Beijing respectively, whereas traditional banks are headquartered in developed countries. The main purpose of the NDB is to "mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies", The AIIB aims to "foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia". Though their functions and purposes are similar to those of traditional MDBs, the new banks make a clearer focus on infrastructure.

Larionova et.al. (2016) concludes that the NDB and AIIB have become the first major MDBs established since 1991, when the EBRD was created. The emergence of these new institutions provides an opportunity for successfully addressing two challenges: persistent global deficit of investments in creating new and maintaining existing infrastructure, and strengthening the representation and voice of developing countries and emerging economies in the global financial system, particularly in the area of financing for development.

The new banks can act as catalysts for the international financial system reform and make traditional MDBs more responsive to the needs of developing countries. In order to develop in accordance with the optimistic scenario presented in this article, the new MDBs should adhere to their basic alternative principles, but also rely on the experience of traditional banks in areas where they have proved their effectiveness. These include exchange of experience on selection of projects, social and environmental safeguards, and monitoring results.

---

23 See Humphrey, C. (2015). "Developmental Revolution or Bretton Woods Revisited? The prospects of the BRICS New Development Bank and the Asian Infrastructure Investment Bank." Overseas Development Institute Working Paper No. 418. https://www.odi.org/sites/odi.org.uk/files/ odi-assets/publications-opinion-files/9615.pdf.

X- Proposal of a New Reserve Currency or Financial System

After having discussed the history and developments of monetary system and possible collapse of the dollar, we can not definitely say that there is a clear alternative to be the new reserve currency. The next most popular currency after the dollar is the euro. But it comprises less than 30 percent of central bank reserves. The eurozone debt crisis weakened the euro as a viable global currency.

Another option, whih has been recently talked very much, is bitcoin. Could bitcoin replace the dollar as the new world currency? It has many benefits and is not controlled by any one country's central bank. It is created, managed, and spent online. It can also be used at brick-and-mortar stores that accept it. Its supply is finite. That appeals to those who would rather have a currency that's backed by something concrete, such as gold. But there are big obstacles. First, its value is highly volatile. That's because there is no central bank to manage it. Second, it has become the coin of choice for illegal activities that lurk in the deep web. That makes it vulnerable to tampering by unknown forces.

As early as March 2009, China and Russia called for a new global currency. They want the world to create a reserve currency that is disconnected from individual nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based national currencies.

China was concerned that the trillions it holds in dollars will be worth less if dollar inflation sets in. This could happen as a result of increased US deficit spending and printing of US Treasurys to support US debt. China called for the International Monetary Fund to develop a currency to replace the dollar.

China and others argue that a new currency should be created and used as the global currency. China's central banker Zhou Xiaochuan goes one step further. He claims that the yuan should replace the dollar to maintain China's economic growth. China is right to be alarmed at the dollar's drop in value. That's because it is the largest foreign holder of US Treasurys, so it just saw its investment deteriorate. The dollar's weakness makes it more difficult for China to control the yuan's value compared to the dollar.

In the fourth quarter 2016, the Chinese renminbi became another one of the world's reserve currencies. As of Q1 2018, the world's central banks held $145 billion worth. That's a small start, but it will continue to grow in the future. That's because China wants its currency to be fully traded on the global foreign exchange markets.

On October 16, 2013, China allowed British investors to pour $13.1 billion into its tightly restricted capital markets. This made London the first trading hub for the yuan outside of Asia. This is one way China is trying to encourage central banks to increase their holdings of the

Chinese yuan. It is the biggest potential threat to the value of the dollar. China would like the yuan to replace the dollar as the world's reserve currency.

Since then, China has been devaluing the yuan against the dollar. Because she is worried that her economy's growth is too slow. But the trouble is China would strengthen, not weaken, the dollar because the Chinese central bank buys dollars to keep it strong and the yuan weak. As a result, China has a large influence on the US dollar.

China is the largest investor in dollars. As of May 2018, it held $1.18 trillion in US Treasury securities. China periodically hints it will reduce its holdings if the US doesn't reduce its debt. Instead, its holdings continue to increase. As of 2018, the US debt to China was 19 percent of its total debt to other countries. Japan is the second largest investor with $1.05 trillion in holdings. It buys Treasurys to keep the value of the yen low, so it can export more cheaply. Its debt is now more than 200 percent of its gross domestic product.

Oil-exporting countries, and the Caribbean banking centers that often serve as their front, hold $451 billion. If they decide to trade oil in euros instead of dollars, they would have less of a need to hold dollars to keep its value relatively higher. For example, Iran and Venezuela have both proposed oil-trading markets denominated in euros instead of dollars.

As a result, all these factors have shaken the position of the dollar as reserve currency and reduced its credibility, however, non of the options are strong enough to become a reserve currency. In fact determining one currency as a global reserve may cause again to a different type of hegemony which will not be accepted by all countries.

XI- Conclusion

It was evident long before Nixon closed the gold window and ended the Bretton Woods system on August 15, 1971, that a paradigm shift in the global monetary system was inevitable. Likewise today, a paradigm shift in the global monetary system also seems inevitable.

By considering Ron Paul's words, "We will know that day is approaching when oil-producing countries demand gold, or its equivalent, for their oil rather than dollars or euros" we will know when the dollar collapse is imminent.

The dollar's hegemony is being directly challenged by China, which is not shy about promoting her own currency as her preferred settlement medium. At the beginning of 2018 an oil futures contract priced in yuan is expected to start trading in Shanghai.[24] Early this year, the governor of China's central bank met the Saudi finance minister, presumably to agree, amongst other topics, the date when Saudi Arabia will start to accept yuan for oil sales to China. The prox-

24 See https://www.bloomberg.com/news/articles/2018-01-01/how-china-will-shake-up-the-oil-futures-market-quicktake-q-a

imity of these two developments certainly suggest they are closely related, and that the end of the Nixon/Saudi deal of 1974, which created the petrodollar, is in sight.

Do not underestimate the importance of this development, because it marks the beginning of a new monetary era, which will be increasingly understood to be post-dollar. The commencement of the new yuan for oil futures contract may seem a small crack in the dollar's edifice, but it is almost certainly the beginning of its shattering.

What the BRICS have been doing is not a good sign for the US dollar in longer term, ensuring its decline and placing its reserve currency status in jeopardy.

America's response to China's monetary manoeuvring has always been that of a nation on the back foot. For the last year, the yuan has been rising against the dollar, following President Trump's inauguration. Instead of responding to China's hegemonic threat by increasing America's role in foreign trade, President Trump has threatened all and sundry with trade restrictions and punitive tariffs. It is a policy which could not be more designed to undermine America's global economic status, and with it the role of the dollar. As a result, alternatives of the dollar such as yen or yuan can not be a reserve currency in the short term. Neither bitcoin, nor "bancor" offered by the IMF as a future single currency seems not applicable. NDB and AIIB, can not reach to the same level as the IMF and World Bank in the very near future, although they made a succesful beninnig in a short period of time. But international financial architecture has been gradually changing before our eyes. These developments show us that collapse of the petrodollar system is getting closer and the dollar era is ending. Even though there will be no single reserve currency in the short run, there will be a new multipolar financial system and a new SDR type reserve asset, which may consist of currencies not only of BRICS countries, but of G-20 countries.

References

Amadeo, K. (2018) “Strength and Power of the US Dollar: Three Reasons Why the U.S. Dollar Is So Powerful” https://www.thebalance.com/power-of-the-u-s-dollar-3306267.

Amadeo, K. (2018) “Why the Dollar Is the Global Currency?” https://www.thebalance.com/world-currency-3305931.

Bertell, N. (2018) “Moneywatchers: The Demise of the Dollar”, http://www.times-standard.com/article/NJ/20180310/BUSINESS/180319987

Giambruno, N. (2018) “Timing the Collapse: Ron Paul Says Watch the Petrodollar,” International Man, https://internationalman.com/articles/timing-the-collapse-ron-paul-says-watch-the-petrodollar/

Harjani, A. (2014) “Yuan to supersede dollar as top reserve currency: Survey”, https://www.cnbc.com/2014/02/26/yuan-to-supersede-dollar-as-top-reserve-currency-survey.html

Humphrey, C. (2015) “Developmental Revolution or Bretton Woods Revisited? The prospects of the BRICS New Development Bank and the Asian Infrastructure Investment Bank.” Overseas Development Institute Working Paper No. 418. https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9615.pdf.

IMF (2018) Data Set, http://data.imf.org/regular.aspx?key=41175

Rueff, J. (1972) The Monetary Sin Of The West, Translated By Roger Glémet, The Macmillan Company New York, New York, 1972

Larionova, M. (2016) “Potential Role of the New Development Bank and Asian Infrastructure Investment Bank in the Global Financial System,” in Larionova, M. V. And A. V. Shepelov, International Relations, 2016, 16 (4), pp.700-716.

Macleod, A. (2018) “How quickly will the dollar collapse?” Goldmoney Insights,

https://www.goldmoney.com/research/goldmoney-insights/how-quickly-will-the-dollar-collapse

Macleod, A. (2018) “Why A Dollar Collapse Is Inevitable?” Goldmoney Insights, https://www.goldmoney.com/research/goldmoney-insights/why-a-dollar-collapse-is-inevitable

Ranasinghe, D. (2014) Yuan takes another step forward as a world currency, , CNBC,

https://www.cnbc.com/2014/02/17/yuan-takes-another-step-forward-as-a-world-currency.html

Reid, D. (2017) Three reasons the world could turn its back on the US dollar, CNBC.com; https://finance.yahoo.com/news/three-reasons-world-could-turn-123619107.html

Reisen, H. (2015) “Will the AIIB and the NDB Help Reform Multilateral Development Banking?” Global Policy, 6(3), pp. 297—304. URL: http://onlinelibrary.wiley.com/doi/10.1111/17585899.12250/epdf

Towers, T. (2018) 'There's no way out' US heading for total currency collapse in Wall Street chaos, Daily Star; https://www.dailystar.co.uk/news/latest-news/644601/Financial-crisis-2017-anniversary-2008-global-crash-America-dollar-crisis-Peter-Schiff

Towers, T. (2018) Fears next financial crash has already started – and will be worse than 2007 disaster; Tom Towers, Daily Star, 6th February 2018; https://www.dailystar.co.uk/news/latest-news/644562/Financial-crisis-2017-anniversary-2008-global-crash-Northern-Rock-Jim-Rogers.

Wang, H. (2016) New Multilateral Development Banks: Opportunities and Challenges for Global Governance. Part of Discussion Paper Series on Global and Regional Governance of the Council on Foreign Relations. http://i.cfr.org/content/publications/attachments/Discussion_Paper_Wang_MDBs_OR.pdf

PART III

GROWTH & DEVELOPMENT ECONOMICS

PART III.
CHAP 1.
PUBLIC EXPENDITURE AS AN INDICATOR OF ECONOMIC GROWTH

Seda Bayrakdar *

Introduction

The increase of public expenditures started with the World War I and continued with the 1929 Economic Depression. Keynesian approaches and social welfare state practices, popular in the 1950-1960s, are also the reasons for the increase in public spending. It is necessary to examine whether public spending as a medium of fiscal policy has a positive effect on social-economic indicators. In recent years, many academic studies, both theoretically and empirically, examine the relationship between public expenditure and economic growth. One of the approaches considers factors such as labor, education, capital, technology, price stability, and natural resources that affect economic growth. The existence of systematic relations between the growth rates of countries is investigated. The second approach to economic growth and public size examines country experiences one by one. The determinants of economic growth are not considered in this approach; but whatever the determinants of economic growth, there is an additional role of public size. In this study, all these discussions will be examined by compiling theoretical and empirical applications that are related to the topic in domestic and international literature.

According to the socioeconomic progress of societies, state policy is undergoing a continuous transformation. It was emphasized that the Great Depression in 1929 necessitated more space for the economy in the concept of the state. The worldwide depression transformed the state into a "welfare state" shaped by a Keynesian view that intervenes with economic life, determines economic policies, and provides financial support especially to those in need.

In the 1980s, the privatization policies of the public were on the agenda, and in 1990s the state was reduced in activity. In these years, the field of activity of the state has been discussed what needs to be done to make the state more efficient and productive.

Nowadays, after the 2009 financial crisis, which is the last living and worldwide influential, the necessity of the state to take a more active role in social life through social policies has emerged and the debate on the state's intervention in the economy for stability in capitalist economies.

* Assist. Prof.,Kırıkkale Unıversty ,Faculty of Economics and Administrative Sciences, Department of Economics, Phone :(+90) 0318-357 4242/2310; e-mail: sedabayrakdar@hotmail.com. This chapter presents the summary of the findings, conclusion and recommendations of Seda Bayrakdar's thesis which is titled "The Analysis Of Correlatıon Between Government Size And Unemployment: Case Of Turkey".

Historical Background Of Public Expenditures And Economic Growth Relation

Public expenditures made by public authorities are carried out in accordance with certain rules to meet social needs and to intervene in socioeconomic life.

In the historical process, it has been observed that public expenditures in both developed and developing countries tend to increase. Public expenditures vary in accordance with time and place. Different comments are made by various opinions on the reasons for this trend.

From a theoretical standpoint, the effects of government sector size on economic performance and growth are described in the framework of two opposing views. The first one is that the government sector share in the economy will have a negative impact on growth, and the second one considers the state as the driving force of the economy and considers a large public share in the economy as one of the main determinants of economic growth. The relationship between public expenditures and economic growth has been interpreted by Wagner and Keynes, differently. (Carr, 1989, pp.267-268; Ram 1986, p191).

Adolph Wagner explains that with economic development it will lead to an increase in public economic activity which in turn will lead to an increase in public spending. The increase in public expenditures caused by economic development is due to the necessity of performing the duties of the State more effectively. As a result, public expenditures increase. In Wagner's law, public spending is an endogenous variable. The causality is from economic growth to public spending. The increases in urbanization and population, the necessity of socioeconomic arrangements and the increase in public services have also brought about. As a result, public expenditures are increasing. According to Wagner[1], all those factors have enhanced public spending along with industrialization. (Mann, 1980, p.189; Wagner& Weber, 1977, p.59)

On the other hand, public spending is an exogenous variable that can be used as a policy tool designed to influence economic growth and stabilize the short-term fluctuations, according to Keynesian economists (who accept Keynes and Keynes ' view.) In Wagner's law, public spending is an endogenous variable. The causality is from economic growth to public spending. The increase in public expenditures, seen as an exogeneous variable in the Keynesian law, will lead to an increase in income and hence the causality is is from public spending to economic growth (Ansari, Gordon &. Akuamoah, 2010, pp. 543; Arısoy, 2005, pp.63-64; Bağdigen&Çetintaş,2004, p.58)

According to Keynesian analysis, the rise in public spending will positively affect economic growth, and even a rise in public spending will lead to a higher increase in national income than a one-unit increase. In contrast to the Wagner hypothesis, this is a one-way causality relationship from public spending to economic growth. This is called the multiplier mechanism.

1 *For detailed information ;*Adolph Wagner (1877),*"Law of the Increasing Extension of State Activity"*.

Contrary to Wagner's hypothesis, there is a one-way causality relationship between public spending and economic growth. The neo-classical approach, contrary to the multiplier mechanism, claims that an increase in public spending would result in a contraction by excluding private investment expenditures from the economy. This is based on the idea that the government will raise interest rates by collecting loan funds in the market as a result of increasing public expenditures and this rise will affect growth negatively, by causing private investments to decrease. (excluded from the economy) (Yüksel ve Songur, p.368).

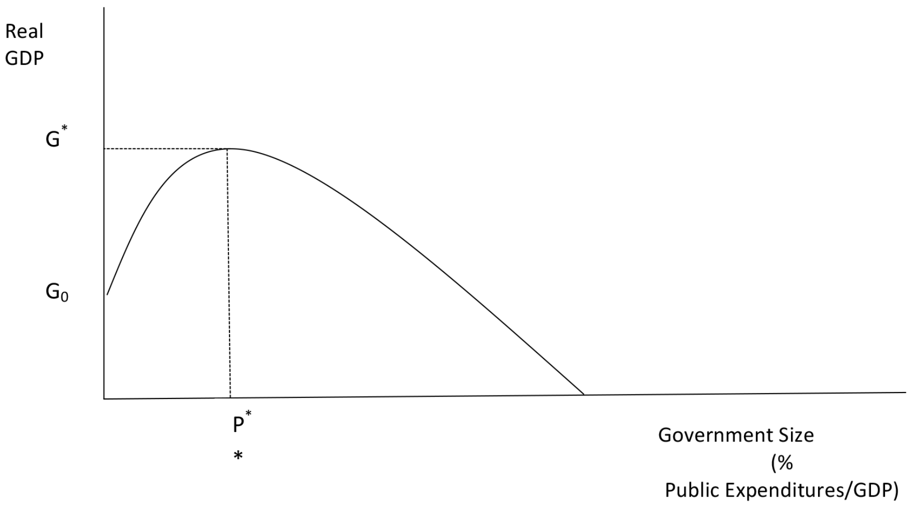
Approaches to Optimal Size Of Government

Since the 19th century, there has been debate among economists about the role and size of government. However, the economic thinking and policy have significant changes over the past century. Public spending has begun to increase during the II World War and 1929 big economic crisis (Tanzi and Schuknecht, 1998, p.69).

Economic development levels of the countries, economic performances, and effectiveness of state have been controversial for many years. Differences in economic performances are often associated with the participation of the state as an economic figure. Theoretically, the various function of the state is claimed to increase economic efficiency, While it is not an unimportant opinion that the increase of government's interventions and an increase of public expenditures on the economic growth and effectiveness affect negatively. The increase of public expenditures started with the I.World War and continued with the 1929 Economic Depression. The Keynesian approaches and Social Welfare State practices popular in the 1950-1960s are one of the reasons for the increase in public spending. Whether public spending has a positive impact on socioeconomic indicators need to be examined. For example, Uzay (2002,p.153) found that increasing public spending negatively affected the economy and economic growth after a certain level.

The role of the government, responsibilities, and discussion in the economy has gone on not only Turkey but also all the World. Fort his reason, the relation between public expenditures and economic growth is frequently examined in abroad literature. The foundation of the subject is set by " Armey Curve" which is based on these discussions. The Armey Curve establishes a positive relationship between public expenditures and GDP to a certain level, and negative relationship if this level is exceeded. Armey expressed an inverse U shaped relationship between government size and economic growth. The Armey Curve is shown below. The percentage of GDP in the horizontal axis is given as the public size, while the vertical axis is given as the real GDP. G0: the level of output is very low and the state of the public sector is not. This point can theoretically be zero. Figure in 1. an increase in public expenditures is seen to increase the real GDP rate up to G* level. At the G* point, economic growth will at the highest level. At this point, the marginal productivity of public expenditures equals marginal productivity of private expenditures. After from this point on, the contribution of public expenditures to the economy is zero. Public expenditures that have been increased after the P* point will negatively affect real growth rate and will cause real growth rate to decrease (Vedder&Gallaway 1998,pp.1-3;Witte&Moosen, 2010, p.42; Altunç &Aydın, 2012,pp.83-86).

Figure.1. Armey Curve



Source: K.Vedder R.& Gallaway L. (1998).
Government Size And Economic Growth. Economic Committee of the U.S Congress.[2]

Armey does not fully disparage the existence of state, but focuses only on the necessity of a certain limit. This limit raises the questions of what should be the optimal public size. According to Aytunç and Altın, the role of the state in a free and open society is important. Freiadman (1997) argues that the optimal level of public spending should be between %15-50 of GDP based on level of development of each country. Barro's theoretical framework is the point where public expenditures are equal to marginal productivity.

In almost all of the empirical studies performed on the basis of the Armey curve below, the optimum size of the public is among the upper and lower limits set by Freidman.

Literature Review

Sheeh (1993,p.324) used corıss- country data to examine optimal government size. If the government size is less than %15 (public consumption expenditure/GDP) a positive relationship

2 For detailed information; Dick Armey (1995),The Freedom Revolution: The New Republican House Majority Leader Tells Why Big Goverment Failed, Why Freedom Works, and How We Will REbuild America

was found between government size and economic growth. When the government size as higher than this, the relationship between economic growth and government size is negative. In addition, in countries with a high-income level, the increase in government size will have a negative impact on growth. In the study, the increase in government size in countries with low-income levels will have a positive impact on economic growth, but in general, this effect is expressed as a weakness.

Vedder and Gallaway (1998,p.10) measured the optimal size of government fort the United States between 1947-1997 and found the optimal government size at %17.45. In the same study, the optimal government size in Canada between 1854-1988 was %21.37, in Denmark between 1854-1988 %26.14, in Italy between 1862-1988 %22.23, in Sweeden between 1881-1998 %19.43, in England between 1830- 1988 %20.99.

Pevcin (2004,p.11) tested the Armey Curve for 12 European countries with the panel data analysis between 1951 and 1995. Public expenditures should be reduced by about 19%-30% in order to ensure the optimal size of the government sector to be between %36-42 of GDP. As a result, it is said that on average, a 19% reduction in public expenditures can be applied when different time series estimates are applied.

Mutaşcu and Miloş (2009, pp.449-453) examined the optimal government size of the new 12 countries of the European Union and former 15 countries of the European Union by nonlinear regression between 1999-2008. As a result, the optimum government size for EU 12 country was 27.46%, the country was determined as 30.42% for EU 15.

Witte and Moesen (2009) tested the Armey curve in their studies according to the nonparametric Data Envelopment Analysis. They studied the existence of a reverse U-shaped relationship between economic performance and government size as claimed in the Armey Curve. The data envelopment analysis is linked to per capita national income, openness, population density, urbanization, country size and family size. The tax burden on GDP is taken into consideration while the public dimension is found. The average government size for 23 OECD countries was 41.22% of GDP, which is 3.74% higher than the optimum government size. Of course, it is necessary to compare the results with other studies. Optimal government size varies significantly between countries.

Forte and Magazzino (2011, p.22) test the BARS Curve* (Barro, Armey, Rahn, and Scully) for EU countries in 1970 - 2009 by Panel Data and Time Series Analysis. The rate of economic growth associated with government size (public expenditures/GDP) is measured. Since there is enough data set, separate country surveys have been carried out for the twelve EU countries. Panel Data Analysis has been carried out in some subgroups with different socioeconomic and monetary structure for EU 27 countries. The result of the test on the basis of the BARS Curve shows that, in general, real government spending is higher than the one which maximizes GDP.

When examined by time series analysis for 12 countries of the EU, it was found that the peak point of the Bars Curve was different. Similar results were found in panel data analysis. With comparison to Anglo-Saxon countries and Western European countries, there is a small difference between the peaks in these countries. For countries low GDP countries, the peak is higher than for developed economies.

Moreover, the Granger causality test points out different causality aspects for each country, while the long-term relationship between public spending and real GDP for six countries was found. The results of the study show that the public expenditures higher than 10% leads to a 2.1% decrease in the GDP growth rate. Moreover, it has been determined that a 1% change in public expenditures will slow economic activity by 0.04%. In addition, the inverse relationships between the growth rate, GDP, and the variations in public spendings are statistically significant. Under the above methods and conditions, the EU 27 countries are located on the right side of the Bars Curve. Panel Data Analysis indicates that the peak point of the BARS Curve is 37.29% of GDP, but it is deviated from the optimal government size at about the rate of 10% due to the fact that the average ratio of government size in these countries is 47.90%. The peak points of the BARS curve are 35.39%, 35.52%, 43.50% and 44.47% for Belgium, Holland, England, and Ireland, respectively. The least deviations of the level of public spending from the peak point of the BARS Curve are 2.27%, 7.7% and 18% for Ireland and the UK, respectively. The maximum deviations are at about the rate of 18% for Belgium and at about the rate of 17% for Denmark. In conclusion, as long as it allows the maximum growth rate, there is no need to shrink the government size. The importance of the distribution of public expenditures is clear and the effectiveness of public expenditures varies from country to country. The composition and financing of public expenditures should also be taken into account. Indeed, different groups of countries have different peaks. This result highlights the need to consider not only the public dimension but also the quality of public finance in different countries.

Karras' (1997,p.280) empirical study of 20 countries between the years 1950-1990 supports the following conclusions. In Europe, state services are considerably efficient. The optimal government size estimation is 16% for EU countries in the international cooperation program. This rate can vary within the range of +3% - 3%. There is some evidence that the relationship between government size and marginal productivity of public services is negative. It is claimed that the smaller the public sector the more efficient the state. Altunc and Aydin (2012, pp.79-98) ; the validity of Armey Curve was tested on the basis of total public expenditure and spending sub-components between 1975 and 2010. The co-integration tests show that Armey Curve is valid for other expenditure groups whereas investment expenditures are not. Other expenditure It is concluded that optimal level of public spending is 16% of GDP for Turkey.

Pamuk and Dündar (2016); The data set covers the period 1950-2006. Model, extended Dickey-Fuller (ADF) test, Johansen (1988, 1995) cointegration test and one using a vector error correction model (VECM) tested. They conclude that the optimal government size is 23.5% for Turkey.

In recent years, many academic studies examine the relationship between public expenditures and economic growth both theoretically and empirically. One of the approaches is to consider factors such as labor, education, capital, technology, price stability, natürel resources that affect economic growth. The existence of systematic relationships between (public expenditures or government size) and growth rates is investigated. The second approach to economic growth and government size is to examine the country experiences one by one. In this approach, the determinants of economic growth are not considered; however, regardless of the determinants of economic growth, government size has an additional role. Chao and Grubber (1998,pp.53-57) find optimal government size to be %34 between 1929-1996 for Canada.

Conclusion

The debate over "the role of the government in the economy" is in its origins of economic thought. In this discussion, the relationship between public expenditures and economic growth, which allows us to understand the government's share in the economy, is a subject that can be tested by empirical analysis. Moreover, not only total public expenditures but also sub-components of these expenditures can be tested separately in relation to economic growth. Of course, how public expenditures are financed and the impact of different public expenditure combinations on economic growth are also in question. In order to limit the study, the level of public expenditure, which did not include these issues and maximized economic growth, was analyzed. The basis of the analysis was the studies made in the framework of the ARMEY and BARS Curves.

It is argued that public expenditures should be between 15% - 50% of GDP in respect of the development level of each country. It is stated that the marginal productivity of public expenditures is equal to 1.

As a result of this review, for each country, there are different levels of public spending that supports economic growth. In the light of these theoretical discussions, a general spending limit is determined by taking into consideration the empirical studies on the subject.

An optimal government can be defined as a state? which guarantees the rights and freedom of the citizens, protects participatory democracy without losing the neutrality between different social groups. Today's need is to create a democratic society on the basis of advanced technology and high efficiency rather than to defend everything, to create rents, to control it, to prevent it.

For this reason, a system that contains a number of characteristics of two basic concepts known as the liberal economy or the welfare state is required. In this alternative system, called the social market economy, the necessity of the free market economy is believed to be the result of the competition of the market as well as those who suffer the loss of work as a result of the competition and the destructive consequences of this competition state should not remain unresponsive. However, public expenditures made by the state must be expenditures that will increase the workability, and barriers to the workability must be removed through implementation and arrangements. The state should not interfere with the functioning of the market economy while providing qualified employees to the impoverished sectors as a result of the capitalist system. In this case, the basic assumption of the social market economy. There should be no choice between the state and the market, and the role of the state complementary to the market should be highlighted.

References

Altunç Ö.F.&Aydın C. (2012). Türkiye'de Kamu Sektörü Büyüklüğü ve Ekonomik Büyüme İlişkisinin Ampirik Analizi. Ekonomik Yaklaşım, 23,78-92.

Arısoy İ.(2005). Wagner ve Keynes Hipotezleri Çerçevesinde Türkiye'de Kamu Harcamaları Ve Ekonomik Büyüme İlişkisi, Ç.Ü. Sosyal Bilimler Enstitüsü Dergisi, 14(2).

Ansari M. I. ,D. V. Gordon &C. Akuamoah (1997). Keynes Versus Wagner: Public Expenditure And National İncome For Three African Countries, Applied Economics, 29 (4).

Bağdigen M.& Çetintaş H.(2004).Causality Between Public Expenditure and Economic Growth: The Turkish Case Journal of Economic and Social Research, 6(1), 53-72.

Carr, J. L. (1989). "Government Size And Economic Growth: A New Framework And Some Evidence From Cross Section And Time Series Data: Comment", The American Economic Review, 79 (1), 267-271.

Chao J. C.P.& Grubel H.. (1998).Optimal Levels of Spending and Taxation in Canada. ed. Herbert Grubel, How To Use The Fiscal Surplus How to Use The Fiscal Surplus- What is the Optimal Size of Government, Vancouver: The Fraser Institute.

Demir, Ö. (2003). Küresel Rekabette Etkin Devlet. Ankara, Nobel Yayınevi.

Ekin N.(1999). Küreselleşme ve Gümrük Birliği, İstanbul, İTO Yayınları, Yayın No: 1999-47.

Forte F. &. Magazzino C (2011). Optimal Size of Government and Economic Growth in E.U Countries. Società İtaliana Di Economia Pubblica.

Karras, G. (1997). On The Optimal Government Size In Europe: Theory and Empirical Evidence. The Manchester School, LXV (3).

Mann, A. J.(1980) . Wagner's Law: An Econometric Test For Mexico, 1925-1976.National Tax Journal, 33(2),189-201.

Milton F.(1997). If Only the U.S. Were as Free as Hong Kong, Wall Street Journal, 2 July 8, p. A14.

Mutaşcu, M.& Milos, M.C.(2009).Optimal Size of Government Spending The Case of European Union Member States. Annales Universitatis Apulensis Series Oeconomica,1(1).

Pamuk, Y.& Dündar U.(2016). Optımal Size Of Public Expenditures: The Case Of Turkey.Hacettepe University Journal Of Economics And Administrative Sciences, 34(3),23-50.

Pevcin, P. (2004).Does Optimal Size of Government Spending Exist?. Paper presented to the EGPA (European Group of Public Administration), 2004 Annual Conference, Ljubljana.

Ram, R. (1986). Government Size and Economic Growth: A New Framework and Some Evidence from Cross-Section and Time-Series Data: Reply. American Economic Review, 79/1,272-280.

Sheehey, E.(1993). The Effect of Government Size on Economic Growth. Eastern Economic Journal.,19(3),321-328.

Tanzi V.&. Schuknecht L.(1998). Can Small Governments Secure Economic and Social Well-Being, ed. Herbert Grubel, How to Use The Fiscal Surplus- What is the Optimal Size of Government. Vancouver: The Fraser Institute.

Uzay N.(2002), Kamu Büyüklüğü ve Ekonomik Büyüme Üzerindeki Etkileri: Türkiye Örneği (1970-1999). Erciyes Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi, 19,151-172.

Witte K., De & Wi, M. (2010). Sizing the Government. Public Choice, 145(1-2), 39–55

Wagner R. E.& W. E. Weber (1977), Wagner's Law, Fiscal Institutions, And The Growth Of Government, National Tax Journal, 30(1,) pp. 59-68

Vedder K.R.& Gallaway L. (1998). Government Size And Economic Growth. Economic Committee of the U.S Congress.

Yülsel C.S& Songur M.(2011). Kamu Harcamalarının Bileşenleri ile Ekonomik Büyüme Arasındaki İlişki: Ampirik Bir Analiz (1980-2010) Maliye Dergisi, 161.

PART III.

CHAP 2.

OFFICIAL DEVELOPMENT ASSISTANCE AND ECONOMIC GROWTH: THE CASE OF THE TURKIC REPUBLICS

Doğan BAKIRTAŞ[*]

Introduction

Foreign aid or development cooperation in the accepted sense of the word (RTMD, 2015, p.5); generally refers to funds transfer from developed/rich countries to underdeveloped or developing countries. The main objectives of the aid provided in many different types slightly differ. Besides the priority of economic and social development of societies, objectives such as poverty alleviation, assuring financial stability, elimination of environmental problems, providing essential infrastructure investments in areas such as global energy, new technology, education and health are directly associated with development assistance. The fact that undercapitalisation is the greatest obstacle to completing such investments in underdeveloped and developing countries increases the expectations for the impact of development assistance on social progress and development.

Discussions on the contributions of the relevant aid to the countries, the main starting point of which is to increase the economic development and prosperity levels of the countries, are currently going on. These discussions (Öztürk & Öztürk, 2012, pp.19-20); centre upon whether it proves to be beneficial or not considering the benefits of the aid provided and the aid supplied by the donor country. At this point, while how the aid recipient countries are using this aid and whether social *(democracy)* development, besides the economic development, is assured or not come to the foreground, it is also considered whether the donor countries have any intervention/sanction power on the recipient country.

In the study, development assistance within the scope of foreign aid is addressed and, the conceptual framework is developed in the first place. Then, the relationship between official development assistance, which is the main driving point of the study, and the level of economic growth of the countries is explained at the theoretical level. In the final part, the relationship between the official development assistance of the countries concerned and the economic

* Asst. Prof., Manisa Celal Bayar University, Faculty of Economics and Administrative Sciences, Department of Public Finance, +90(236) 716 00 10, dgnbakirtas@gmail.com

growth performance is empirically tested and the findings of the analysis are discussed in the conclusion part.

Development Assistance: Conceptual Framework

Development assistance refers to the funds transferred from governments or the public institutions of richer countries to the governments of less developed countries. The flow of foreign funds contains many types and different elements. It is usually divided into two different flows, which include official and private capital flows. Official capital flows can be either bilateral or multilateral. Bilateral official capital flow refers to the capital provided by the donor government to the government of the recipient countries. Multilateral capital flows mean the capital flows from international institutions such as the World Bank, the United Nations or the IMF. Both official capital flows include types of assistance such as grants, debts or grant-like contributions. Among these types of aid, the grant is considered to be the most desirable form of assistance as it makes a clear contribution to the available resources for development goals (Refaei & Sameti, 2015, pp.127-128).

The Development Assistance Committee (DAC), which is within the structure of the OECD, is an organization that plays an important role in the coordination of foreign aid. The relevant committee describes the bilateral development cooperation between the committee member countries, known as donors, and the recipient countries as an important forum (OECD, 2018), especially in an attempt to finance the development investments of developing countries. Development assistance is considered in three different ways by the Development Assistance Committee (DAC) as Official Development Assistance (ODA); Other Official Flows (OOF) and Private Sector Flows (PF).

Official development assistance (ODA) is a funding support from the state or state-owned institutions and organizations to the developing countries for the purpose of promoting the economic development and prosperity of developing countries. It can be stated that official development assistance is mostly a grant even if it is defined as low-interest and long-term loans, at least 25% of which are allocated as grants. Other official flows (OOF) are defined as assistance provided by the official sector which is either development-based or not development-based with a grant element of less than 25%. Official export credits, portfolio investments and debt restructuring can be an example to such classification. Private sector flows (PF) include the total assistance by the private sector as well as non-governmental organizations (OECD, 2018a, pp.2-4).

Every fund transfer between countries within the context of bilateral or multilateral capital flows is not accepted as development cooperation by DAC. The most important indicator at this point is the positive effect on the economic and social development of the recipient country as a result of the assistance. Therefore, according to DAC; the provision of military equipment and services and the forgiveness of debts arising from military purposes are not regarded as official development assistance. Likewise, activities to fight against terrorism and/or peacekeeping practices are not covered, either. At the level of social and cultural programs, concert tours or travel expenses of athletes are not supported while the description of museums, libraries, and music schools or sports facilities is within the scope of the ODA. In addition, cultural activities, which mainly aim to promote the culture or the values of the country in developing countries, are not included in development cooperation. With regards to the refugees, who have become a very important problem at the present time, temporary aid for refugees during the first 12 months is considered within the scope of ODA. Moreover, research that is directly and primarily related to the problems of developing countries is viewed within the scope of development assistance (OECD, 2018a, p.2). Clearly, the scope of bilateral or multilateral official assistance differs in terms of development cooperation according to the nature and the area of use of transferred funds. Therefore, the most important indicator of development cooperation assistance is the net values that will be provided to the development level of the relevant country.

Another point of view on development assistance is the goals of donor countries in providing this assistance. At this point, although the primary goal of developing countries is economic growth, there are also several objectives for developed countries. The foremost among these is prosperity and international trade. Although developed countries have achieved a certain level of prosperity, they are constantly trying to maintain this level. On the other hand, international trade is important concerning the competitive advantage, especially in terms of developed countries. Development of underdeveloped countries leads to market extension and an increase in national income. Hence, developed countries, which are in a superior position in international trade, meet the increasing demand, thus maintain their welfare levels and even increase due to the development of underdeveloped or developing countries (Akça & Esengün 2004, p.85-86). It can be stated, however, that bilateral and/or unilateral assistance is used for different purposes. At this point, it is argued that bilateral aid is often designed to support the interests of certain firms and/or sectors in the donor country, while multilateral assistance shows a lower tendency to such pressure (Radelet, 2006, pp.6-7).

The Relation between Official Development Assistance and Economic Growth

The theoretical foundations of the relationship between development assistance and economic growth have been laid by the two-gap model introduced by Chenery and Strout (1966). The analytical framework of the model is based on the Harrod-Domar growth model, which prioritizes savings in financing the investments required to achieve a targeted growth rate (Gomanee et al., 2005, p.1058). It is possible to explain the two-gap model with the saving-investment gap and foreign exchange gap. At this point, while domestic saving rates are at a very low level in low-income countries, local funds are inadequate to meet the desired investment levels. Such a situation is defined as a saving-investment gap. On the other hand, the fact that export earnings are inadequate for the desired capital good import reveals foreign exchange gap. Aids can also contribute to the growth rate while filling these gaps (Morrissey, 2001, p.39).

The impact of external resources on growth in an economy can be judged by the contributions it provides to mobilization and allocation of all productive resources. At this point, skills and organizational abilities, domestic saving and imported commodities and services come to the foreground. Any change in the supply of these factors at any moment in time can have significant effects on economic growth in terms of time and efficiency. For example, it is possible to use investments to increase the supply of skills and imported commodities *(by import substitution or raising exports),* but it is also possible to say that changes in these factor supplies will progress gradually and will change to a limited degree in the short run (Chenery & Strout, 1966, p.681). The effectiveness of external resources in the short term depends on their use to reduce the shortages of skills, savings and imported commodities. The effectiveness of assistance in the long term is related to growth rates. Achieving a high rate of growth, even if supported by external capital in large quantities, is the most important factor in the long-term effectiveness of assistance (Chenery & Strout, 1966, pp. 724-725).

The neo-classical growth models, which can be defined as standard or old, are based on Solow (1956). In this model, increase in per capita income is determined by the increase in capital-labour ratio, which is dependent on saving and population growth. Assistance has only temporary effects. At this point, savings or a rise in the capital-labour ratio will not change the per capita growth rate in the long run while increasing per capita income. The new growth theory involves the concept of endogenous technological change (Romer, 1986; 1990). In this model, human capital plays an important role while emphasizing factors such as technological change, research and development, and learning by doing. The impact of assistance on economic growth is expressed as a long-term process. At this point, if the import capital goods (financed by assistance) have a higher technology than the domestic capital goods, the assistance will be able to increase the long-term growth rates (Morrissey, 2001, p.41).

Another point of view regarding the relationship between development assistance and economic growth is the effectiveness of economic policies implemented within the country. Herein, when policy indicators among the indicators of growth are not taken into account, assistance does not affect economic growth and positively contributes to growth only in countries with high values in terms of policy indicators. Thus, assistance is ineffective in countries with weak policy indicators *(fiscal, monetary, and trade policies).* This perspective is supported by the notion that assistance is directed towards the consumption expenditures of the government rather than financing investments that encourage growth in countries without good policy practices (Burnside & Dollar, 2000, pp. 863-864; Gomanee et al., 2005, pp.1056-1057).

Official development assistance (ODA) has become an important tool in terms of both capital and technical knowledge transfer from developed countries to developing countries. This assistance is the main source of development financing in many developing countries. The results of official development assistance differ from country to country, but it is also observed that successful results, as well as failures, are obtained. It is therefore not possible to express a clear success or failure. However, the role of ODA is becoming more important in the face of permanent poverty and underdevelopment in third world countries. Awareness of the need to use ODA resources more efficiently and effectively is rising so that these problems can be eliminated. This awareness contributes to the breakdown of the vicious cycle of poverty and underdevelopment in developing countries by leading to a broad policy debate to explore the possible ways to significantly improve the overall effectiveness of ODA (Acharya, 2003, p.1572).

Literature Review

In the literature, there are many studies that use different methods of analysis to determine the relationship between development assistance and economic growth rates of countries. In the related studies, this relationship was tested by differentiating the analysis method, period or country groups, and different results were obtained for different country groups.

In a study conducted by Gomanee et al. (2005), in which data from 25 sub-Saharan countries from 1970 to 1997 were included in the analysis, foreign aid was found to have a positive effect on economic growth. In other words, it is possible to influence economic growth positively through investments financed with assistance. Refaei and Sameti (2015) studied the effect of assistance on economic growth in Iran in particular, by using the annual data from 1980 to 2012. According to the results of the analysis, the effect of foreign aid on economic growth in the long run, was positive and statistically significant.

Durbarry et al. (1998) tested the impact of foreign aid on economic growth using the Fischer-Easterly model. According to the findings of the analysis, foreign aid had affected growth positively based on a stable macroeconomic policy environment. In addition, it is stated that the results obtained varied according to income level, allocation level of aid and geographical distribution of aid.

In a study on the relationship between official development assistance and economic growth of the countries of the West African Economic Community (WAEMU); Lacine (2018) revealed that the total net public assistance received had a positive and significant impact on the growth rates of WAEMU countries in the short and long term. The researcher also calculated the minimum threshold of official development assistance required to increase the growth rates of the countries of the zone as 13.5% of GDP per capita.

Although there are studies that determined a positive relationship between assistance and economic growth in the literature, there are also studies that revealed that it had or might have an impact on the condition that the relationship between these variables met certain conditions and that there was no effect between the variables concerned.

Burnside and Dollar (2000) examined the relationships among foreign aid, economic policies and growth, and found that aid had a positive impact on growth in developing countries; however, this impact was dependent on good practices of fiscal, monetary, and trade policies. It also suggests that aid would be more effective if a better policy was followed. A similar result was also obtained by Morissey (2001). When economic uncertainty is controlled, it can be stated that aid has positive effects on economic growth. However, it is put forward that the effects of aid are less in countries with poor policy indicators (Morrisey, 2001, p.48).

Nowak-Lehmann et al. (2012) found that foreign aid had an insignificant or low negative impact on per capita income *(especially in highly aid-dependent countries).* This result applies to countries with different levels of human development and income in addition to many different regions. It was also noted that aid had a slight positive impact on investments but had a statistically significant effect on domestic savings and real exchange rate. In a study, Easterly (2003) tested the data from 88 countries between the years 1970 and 1997. According to the results of the analysis, economic growth is affected negatively by foreign aid. A similar impact was also demonstrated by Bailliu (2000) in a study involving 40 developing countries by using data from 1975 to 1995.

Methodology

Due to the lack of the sufficient number of observations regarding the Turkic Republics, panel data econometrics was preferred to investigate the topic of official development assistance and economic growth. Panel unit root tests were employed to test the stationary properties of the variables. In this context, LLC test developed by Levin et al. (2002), IPS test developed by Im et al. (2003), CADF test developed by Peseran (2007), and panel unit root tests developed by Breitung and Das (2005) were used. While LLC and IPS tests do not consider cross-sectional dependence, CADF and Breitung and Das (2005) tests are the unit root tests considering cross-sectional dependence. In the LLC test applied to the homogenous panel data, the null hypothesis "there is a common unit root" was tested. In the IPS test, which permits heterogeneity between cross sections, the null hypothesis "there is a common unit root in all cross sections" was tested. In the CADF and Breitung and Das (2005) tests, the null hypothesis "panel contains unit roots" was tested.

The impact of official development assistance on economic growth was estimated by the PVAR *(Panel Vector Autoregressive)* model. The first order panel VAR model can be formulated as in the following (Love and Zicchino, 2006, p.193):

$$z_{it} = \Gamma_0 + \Gamma_1 z_{it\text{-}1} + f_i + d_{c,t} + e_t$$

Here, z_{it} refers to endogenous variables vector (economic growth, official development assistance, capital stock and foreign direct capital investments), f_i represents the fixed effects that represent individual heterogeneity, $d_{c,t}$ indicates the country-specific time dummy variable, Γ_0 refers to the constant term vector Γ_1 is the matrix polynomial, and e_t represents the error term.

Panel VAR approach also allows for the unobservable heterogeneity resulting from cross sections in the panel. In addition, endogenous evaluation of all variables increases the effectiveness of the statistical results (Agnello & Sousa, 2011, p.159).

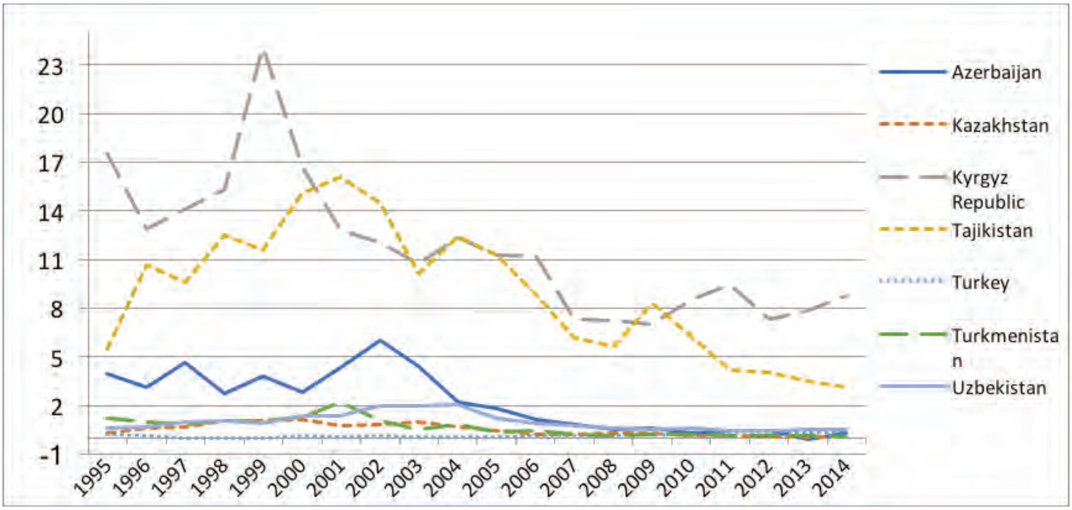
Impulse response functions and variance decomposition are employed to evaluate the dynamics of the VAR model. Impulse response functions are used to show the impact of one standard deviation shock in any of the random error terms on the endogenous variables. Variance decomposition enables to determine to what extent the variables affect each other. Variance decomposition gives information about which variable affects a selected variable most and impulse-response functions provide information on the utility of a variable which is effective on the concerned variable as a policy tool (Bilgili & Uğurlu, 2007, p.144; Zengin, 2001, p.38; Kesikoğlu et al., 2013, p.24).

An estimation of confidence intervals is required for the analysis of impulse- response functions. Since the impulse-response matrix is based on the estimated VAR coefficients, their standard errors need to be calculated. After calculating the standard errors of the impulse-response functions, confidence intervals were obtained through Monte Carlo simulation. A 10-period cycle was used for variance decomposition, which indicates what percent of the change in one variable is explained by the change in another variable. We use Stata routine *pvar* developed by Abrigo ve Love (2015) for Panel VAR estimation.

Data

The study aimed to reveal the relationship between official development assistance and economic growth by using the data from Turkey and the Turkic Republics *(Azerbaijan, Tajikistan, Uzbekistan, Kyrgyzstan, Turkmenistan, and Kazakhstan)*. A data set was created using the variables in accordance with this purpose. The development of official development assistance, one of the key variables in the context of the analysis, for the countries between 1995 and 2014 is presented in Graph 1.

Graph 1: Development of Net Official Development Assistance (1995-2014-% of GNI)

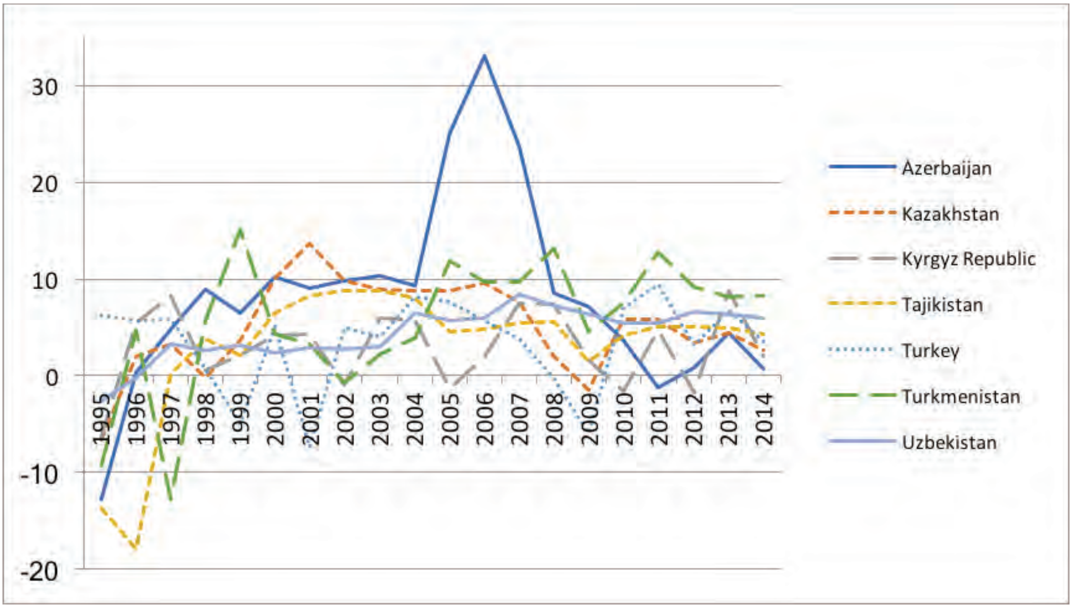


Source: World Bank, 2018.

It is seen that the share of the net official development assistance in national income in the Turkic republics shows a downtrend during the period. While this rate was 17.5% for Kyrgyzstan and 5.5% for Tajikistan in 1995, it was 8.7% and 3.1% respectively in 2014. Among the Turkic Republics, Kyrgyzstan and Tajikistan are the two countries with the lowest income per capita compared to other countries. Therefore, official development assistance provided to these two countries is more than other countries.

The change in the rate of increase in per capita income representing the variable of economic growth, which is another fundamental variable in the study, between 1995 and 2014 for the countries is presented in Graph 2.

Graph 2: Per capita GDP Growth Rate (1995-2014)



Source: World Bank, 2018.

The increase in per capita income in the Turkic Republics followed a fluctuating course during the period. Especially in Azerbaijan, the per capita income between 2005 and 2007 witnessed great increases. This growth rate, which was also achieved with the contribution of the increase in oil prices, had a decrease due to the decline in oil prices.

Descriptions of the variables used in the analysis are displayed in the table below. The data range covers 1995-2014 periods.

Table 1: Variables Used in Analysis

Variable	Unit	Data Source
GDP per capita growth (percagrwth)	Annual %	World Development Indicator
Net Official Development Assistant (odaingni)	% of GNI	World Development Indicator
Capital Stock (capstockingdp)	% of GDP	Penn World Table
Net Foreign Direct Investment (fdiingdp)	% of GDP	World Development Indicator

In the analysis, the rate of increase in per capita income was considered an indicator of economic growth in order to counteract the impact of the size of the country in terms of population.

Data from capital stocks, commonly used in economic growth analyses, and official development assistance received by countries through foreign direct investments were used.

Results of the Analysis

The unit root test results of the variables used in the analysis are shown in the table below.

Table 2: Panel Unit Root Test Results

Variables	LLC	IPS	CADF	Breitung and Das (2005)
percagrwth	-3.352***	-3.008***	-3.523***	-1.866**
odaingini	-2.915***	-1.674**	-3.040**	-1.523*
capstockingpd	-3.232***	-1.887**	-3.066**	2.659
fdiingdp	-3.213***	-2.300**	-1.974	-1.675**

Note: *The test statistics are based on the model with constant and trend. The lag lengths for the LLC and IPS tests are determined by the Schwarz information criterion. The lag length for the CADF test is taken as 1. ***, **, * indicates the level of significance at 1%, 5% and 10% respectively.*

According to the results of the LLC and IPS panel unit root tests, the null hypothesis "there is a unit root" was rejected and all the variables used in the analysis were found to be stationary. According to the results of the CADF test, which takes cross-sectional dependency into consideration, percagrwth variable was stationary at 1%, and odaingini and capstockingpd variables were stationary at 5% significance level, however fdiingdp variable was not found to be stationary. According to the results of the unit root test developed by Breitung and Das (2005), other variables except capstockingdp variable were stationary. Based on these results, the series used in the analysis were determined to be stationary at levels I(0).

The results of the tests for determining the appropriate lag length in PVAR analysis are shown in the following table.

Table 3: Lag length test results for PVAR model

Lag Length	MBIC	MAIC	MQIC
1	-183.13	-55.74	-107.36
2	-118.54	-33.62	-68.03
3	-58.73	-16.27	-33.48

Based on the statistical values of MBIC *(Bayesian Information Criterion),* MAIC *(Akaike Information Criterion)* and MQIC *(Hannan and Quinn Information Criterion)* tests, PVAR analysis was estimated with 1-lag.

Table 4: PVAR (1) Estimation results

	Percagrwth	Odaingini	Capstockingpd	Fdiigdp
Percagrwth(-1)	0.75** [0.54]	0.001 [0.061]	-19.356** [1.502]	-0.097** [0.021]
Odaingini(-1)	-0.26* [0.12]	0.72** [0.051]	12.938** [2.911]	0.333** [0.083]
Capstockingpd(-1)	0.003** [0.0009]	0.0015** [0.0002]	0.786** [0.235]	-0.002** [0.0005]
Fdiigdp(-1)	0.22** [0.60]	0.002 [0.006]	1.953 [1.940]	0.761** [0.066]

Note: *Values in square brackets indicate standard errors. ** and * indicates level of significance at 1% and 5% respectively.*

The established PVAR (1) model was estimated by the Generalized Method of Moments (GMM) method. With the stability test based on the estimation, it is seen that all the eigenvalues are within the unit circle, thus providing the stability condition. PVAR analysis provides information on the direction of the relationship between the variables used in the model. When PVAR (1) estimation results are evaluated, it is determined that there is a negative and significant relationship between per capita growth rate and official development assistance. However, the per capita growth rate gives a significant and positive response to its lagged value, capital stock and foreign direct investment.

This result obtained from the PVAR (1) model supports several studies in the foreign aid-growth literature. According to the 1998 World Bank report, the effectiveness of the assistance received depends on the certain conditions of recipient countries. Accordingly, there is a need for sound economic management or good governance in order for foreign aid to contribute to economic growth (World Bank, 1998). Similarly, Burnside and Dollar (2000) suggests that the impact of foreign aid on economic growth is very low. However, they stated that this effect can be made more permanent and profound through good policy practices. Ali and Isse (2005) revealed that the effect of foreign aid on economic growth is negative. Nevertheless, with good policies, aid effectiveness on economic growth can be enhanced. Bräutigam and Knack (2004) found that dependence on foreign aid negatively affects the institutional and governance quality in a study conducted on 32-sub-Saharan African countries. Undoubtedly, the contribution of institutional quality and good governance to boosting economic growth is remarkable. According to Islam (2003), if the country receiving foreign aid has political stability, then foreign aid is effective; if not so, it does not have any effect on economic growth. Svensson (1999) put forward that the impact of foreign aid on economic growth is conditional and that the extent of political and civil freedom is determinant at this point. In countries with an institutionalised control on executive power, in other words, in more democratic countries, foreign aid has a positive impact on growth.

Table 5: Results of Variance Decomposition

	percagrwth	Odaingini	Capstockingdp	Fdiingdp
percagrwth	0.7413	0.0182	0.0128	0.2275
Odaingini	0.4105	0.5245	0.0303	0.0344
Capstockingdp	0.7478	0.0337	0.0769	0.1414
Fdiingdp	0.0250	0.0937	0.0051	0.8760

Table 5 illustrates the results of the variance decomposition. Accordingly, a large part of the fluctuations in per capita growth stems from their own changes. Nevertheless, it is observed that foreign direct investment accounts for 22% of the per capita economic growth. The impact of official development assistance and capital stock on per capita income has been found to be very low.

Table 6: PVAR Granger Causality Test Results

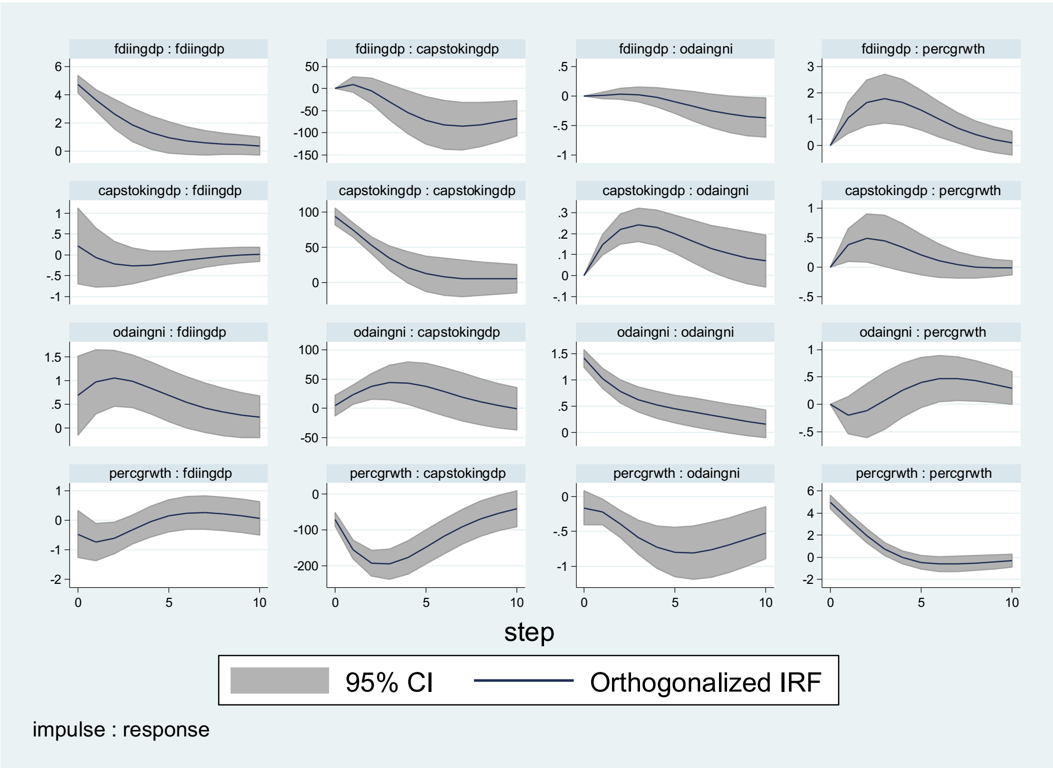
Equation variable	Excluded variable	Chi2
Percagrwth	Odaingni	4.54*
	Capstockingdp	12.53**
	Fdiingdp	13.69**
	All	19.18**
Odaingni	Percagrwth	0.045
	Capstockingdp	33.07**
	Fdiingdp	0.192
	All	36.78**
capstockingdp	Percagrwth	165.91**
	Odaingni	19.75**
	Fdiingdp	1.014
	All	170.34**
Fdiingdp	Odaingni	15.82**
	Capstockingdp	20.38**
	Percagrwth	21.06**
	All	27.54**

Note: *The null hypothesis is Excluded variable does not Granger-cause equation variable for Granger Causality test. ** and * indicates the level of significance at 1% and 5% respectively.*

According to the results of PVAR Granger causality test, there is causality from official development assistance, capital stock and foreign direct investment toward economic growth. No causality relationship has been detected from economic growth toward official development assistance. It is therefore seen that there is a one-way causality relationship from official development assistance to economic growth. In addition, causality has been found from official development assistance to capital stock and foreign direct capital investments.

Finally, the impulse-response functions of the PVAR (1) model with estimated coefficients are shown in the graph below.

Graph 3: Impulse - Response Functions



The impulse-response functions show how the 1% standard deviation shock in a variable affects the other variables in the model. In the graphs in the last column of Graph 3 displays the responses that the per capita income gives to the shock in other variables. According to this, economic growth gives a negative reaction to one standard deviation shock in the net official development assistance in the first period. However, it is seen that this effect has turned positive in time (after 3 periods) and the size of this positive response diminishes over time, but not completely disappears (persists). Although this result is economically significant, it is statistically insignificant. For this reason, it is not possible to comment based on the impulse-response functions. However, this result supports the negative relation obtained from PVAR (1) model.

Economic growth gives a positive response when it comes to one standard deviation shock in foreign direct investment. It is observed that after about 3 periods, this effect begins to extinguish. Similarly, it is observed that it gives a positive response to one standard shock in the capital stock, but after 3 periods this effect gradually diminishes. Economic growth, on the other hand, gives a positive response to its own shock, but it appears that this response rapidly declines and therefore is not persistent.

Conclusion

While there is no consensus in the literature on the impact of official development assistance on economic growth, it appears that there is an indirect effect. Foreign aid is expected to contribute to overcoming the economic downturn such as saving deficiency, budget deficit and foreign trade deficits that developing countries face. With this assistance, it is intended to realize the public investments that the countries can not make due to the budget constraint, to contribute to the growth performance of the country through importing the necessary investment goods, and therefore to raise the standard of living in the country.

In the study, official development assistance and effects on economic growth were investigated using the data of the Turkic Republics between the years 1995 and 2014 through panel VAR method. Panel VAR estimation results indicate a negative and significant relationship between official development assistance and economic growth. The results of variance decomposition also show that official development assistance has a small share in explaining the changes in economic growth.

In order for foreign aid to contribute to economic growth, it is not enough for a country to receive foreign aid. It is also necessary to increase the aid effectiveness. Within this scope, it is essential to develop the human capital, institutional qualifications and policy management in the country. Measures and policies to be taken in this way will both contribute to economic growth itself and will lead to a positive contribution of foreign aid to economic growth.

References

Abrigo, M. R., & Love, I. (2015). Estimation of Panel Vector Autoregression in Stata: A Package of Programs. Available at: http://paneldataconference2015.ceu.hu/Program/Michael-Abrigo.pdf [Accessed 10 July 18].

Acharya, S. R. (2003). Official Development Assistance (ODA) in Transport Sector: Challenges and Opportunities. In *Proceedings of the Eastern Asia Society for Transportation Studies*, 4, pp. 1572-1584.

Agnello, L. & Sousa, R. M. (2011). Fiscal Policy and Asset Prices. *Bulletin of Economic Research*, 65(2), pp. 154-177.

Akça, H. & Esengün, K. (2004). Dış Yardımlar: Algılanışı, Nedenleri ve Sonuçları. *Standard Ekonomik ve Teknik Dergi*, 509, pp. 82-86.

Ali, A. M. & Isse, H. S. (2005). An Empirical Analysis of The Effect of Aid on Growth. *International Advances in Economic Research*, 11(1), pp. 1-11.

Bailliu, J. N. (2000). *Private Capital Flows, Financial Development, and Economic Growth in Developing Countries*. Ottawa: Bank of Canada.

Bilgili, F. & Uğurlu, E. (2007). Büyüme, Doğrudan Yabancı Sermaye Yatırımları ve Yurtiçi Yatırımlar Arasındaki Etkileşim. *Erciyes Üniversitesi Sosyal Bilimler Enstitüsü Dergisi*. 23(2), pp. 127-152.

Bräutigam, D. A. & Knack, S. (2004). Foreign Aid, Institutions, and Governance in Sub-Saharan Africa. *Economic development and cultural change*, *52*(2), pp. 255-285.

Breitung, J. & Das, S. (2005). Panel Unit Root Test Under Cross-Sectional Dependence. *Statistica Neerlandica*. 59(4), pp. 414-433.

Burnside, C. & Dollar, D. (2000). Aid, Policies, and Growth. *American Economic Review*, 90(4), pp. 847-868.

Chenery, H. B. & Strout, A. M. (1966). Foreign Assistance and Economic Development. *The American Economic Review*, 56(4), pp. 679-733.

Durbarry, R., Gemmell, N., & Greenaway, D. (1998). *New Evidence on The Impact of Foreign Aid on Economic Growth* (No. 98/8). CREDIT Research paper.

Easterly, W. (2003). Can Foreign Aid Buy Growth?. *Journal of economic Perspectives*, 17(3), pp. 23-48.

Gomanee, K., Girma, S., & Morrissey, O. (2005). Aid and Growth in Sub-Saharan Africa: Accounting for Transmission Mechanisms. *Journal of International Development*, *17*(8), pp. 1055-1075.

Im, K. S., Pesaran, M. H., & Shin Y. (2003). Testing for Unit Roots in Heterogeneous Panels. *Journal of Econometrics*, 115, pp. 53-63.

Islam, M. N. (2003). Political Regimes and The Effects of Foreign Aid on Economic Growth. *The Journal of Developing Areas*, 37(1), pp. 35-53.

Kesikoğlu, F., Yıldırım, E., & Çeştepe, H. (2013). Cari Açığın Belirleyicileri: 28 OECD Ülkesi için Panel Var Analizi. *Ekonomik ve Sosyal Araştırmalar Dergisi*, 9(2), pp. 15-34.

Lacine, B. (2018). Impact of Official Development Assistance on the Growth of WAEMU Member Countries: Assessment Following the Recommendations of The 2002 Monterrey Conference. *Mediterranean Journal of Social Sciences*, *9*(1), pp. 71-79.

Levin, A., Lin, C., & Shin, C. J. (2002). Unit Root Tests in Panel Data: Asymptotic and Finite-Sample Properties. *Journal of Econometrics*, 108, pp. 1-24.

Love, I. & Zicchino, L. (2006). Financial Development and Dynamic Investment Behaviour: Evidence From panel VAR. *The Quarterly Review of Economics and Finance*, 46, pp. 190-210.

Morrissey, O. (2001). Does aid increase growth?. *Progress in Development Studies*, 1(1), pp. 37-50.

Nowak-Lehmann, F., Dreher, A., Herzer, D., Klasen, S., & Martínez-Zarzoso, I. (2012). Does Foreign Aid Really Raise Per Capita Income? A Time Series Perspective. *Canadian Journal of Economics/Revue canadienne d'économique*, 45(1), pp. 288-313.

OECD (2018). *Kalkınma Yardımları Komitesi* [online] Available at: http://oecd.dt.mfa.gov.tr/Content/assets/consulate/images/localCache/1/384f1a1f-e83d-4cd1-9122-fbb636782bf5.docx [Accessed 13 May 18].

OECD (2018a). *Official Development Assistance* [online] Available at: http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm [Accessed 3 June 18].

Öztürk, H. & Öztürk, S. (2012). *Türkiye'nin Dış Yardım Stratejisi: Sorun ve Öneriler.* BİLGESAM Rapor No: 54, İstanbul.

Peseran, M.H. (2007). A Simple Panel Unit Root Test in the Presence of Cross-Section Dependence. *Journal of Applied Econometrics*, 22, pp. 265-312.

Radelet, S. (2006). *A Primer on Foreign Aid.* Center for Global Development Working paper No 92.

Refaei, R., & Sameti, M. (2015). Official Development Assistance and Economic Growth in Iran. *International Journal of Management, Accounting and Economics*, 2(2), pp. 125-135.

RTMD (Republic of Turkey Ministry of Development) (2015). *Onuncu Kalkınma Planı 2014-2018: Kalkınma için Uluslararası İşbirliği, Metotlar ve Yaklaşımlar.* Özel İhtisas Komisyonu Raporu, Ankara.

Romer, P. M. (1986). Increasing Returns and Long-run Growth. *Journal of Political Economy*, 94(5), pp. 1002-1037.

Romer, P. M. (1990). Endogenous Technological Change. *Journal of Political Economy*, 98(5, Part 2), pp. S71-S102.

Solow, R. M. (1956). A Contribution to The Theory of Economic Growth. *The Quarterly Journal of Economics*, *70*(1), pp. 65-94.

Svensson, J. (1999). Aid, Growth and Democracy. *Economics & Politics*, 11(3), pp. 275-297.

World Bank (1998). *Assessing Aid: What Works, What Doesn't and Why*. Oxford University Press.

World Bank (2018). *Data Bank – World Development Indicators,* [online] Available at: https://data.worldbank.org/indicator/DT.ODA.ODAT.PC.ZS [Accessed 16 June 18].

Zengin, A. (2001). Reel Döviz Kuru Hareketleri ve Dış Ticaret Fiyatları (Türkiye Ekonomisi Üzerine Ampirik Bulgular). *Cumhuriyet Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi*. 2(2), pp. 27-41.

PART III.
CHAP 3.
RE-EXAMINATION OF THE EASTERLIN PARADOX IN THE SHADOW OF GLOBALIZATION: MONEY CAN BUY LIFE SATISFACTION, BUT NOT HAPPINESS

Merter AKINCI[*]

1. Introduction

In his famous paper, Easterlin (1974) indicates that happiness is positively correlated with per-capita income level. But over time, average happiness remains unchanged in spite of large increases in average per-capita income level. A number of economists have called this phenomenon as the "Easterlin Paradox", suggesting that there is no linkage between economic growth and overall happiness in the long-run. Easterlin (1974) claims that "… an increase in the income of anyone individual would increase his happiness, but increasing the income of everyone would leave happiness unchanged". Therefore, it can clearly be said that what is true for an individual is not true for a society as a whole. This result is confirmed by Easterlin (1995, 2005) in his following papers and he shows little significant relationship between average income and average happiness. The policy implication of the paradox is that if greater happiness level is the main aim, process of economic growth is useless.

Today, some economists have introduced a modified version of the Easterlin paradox, suggesting the existence of a non-linear linkage between per-capita income and happiness level. It is generally said that wealthier people are happier than poor ones and happiness level tends to rise with income up to a threshold. But beyond a certain income threshold, more income is unrelated to happiness or decreases happiness. In other words, an increase in income will have positive effects on happiness level up to a threshold point, while more increases in income beyond a threshold point will have negative effects on happiness level. In economics of happiness, it is argued that crossing an income threshold level leads to diminish marginal utility of per-capita income. In other words, beyond the threshold, more income decreases average happiness level, suggesting that there is an inverted-U shaped relationship between per-capita income and happiness. The main insight of this phenomenon is explained by Lane (2000) as "… the rich are no more satisfied with their lives than the merely comfortable, who, in turn, are only slightly,

* Assoc. Prof., Ordu University, Ünye Faculty of Economics and Administrative Sciences, Department of Economics, PO Box: 52300, Ünye/Ordu, Turkey, e-mail: makinci86@gmail.com

if at all, more satisfied with their lives than the lower middle classes". In addition, as Alexander (2012) noted, the process of income growth tends to contribute positively and directly to happiness when people and societies have very low levels of material wealth. But once basic needs have been met, further increases in income have diminishing marginal returns. It means that beyond an income threshold point, further increases in wealth play only a minimal role raising happiness. In other words, if people whose basic material needs have been met continue to dedicate their lives to pursuit of more and more wealth, they may find that they are essentially wasting their time so far as happiness is concerned. Although consumption of additional material goods ensures extra utility, its effect is generally transitory and self-limiting. Happiness level arising from continued consumption usually wears off and disappears in over time. Therefore, this mechanism of hedonic adaptation makes people find new ways to be happier and strive for further aspirations. As Inglehart (1990) noted, happiness is determined by the gap between one's aspiration level and one's perceived situation but one's aspiration levels gradually adjust to one's circumstances in aspiration level theory. In this context, people usually compare their happiness level to those who are in a similar social group and they generally think that they are likely to become happier if their incomes increase more relative to others. But in a similar social group, if everyone's incomes increase at the same proportion like them own, their happiness level tends to remain unchanged. Besides, according to Easterlin (2001), if income rises and material aspirations remain constant, individuals will move upward along their utility function, which shows rising happiness level. If, however, income remains constant or increases little and aspirations rise, then happiness level associated with per-capita income would diminish. This mechanism can shed light on an inverted-U shaped linkage between per-capita income and happiness level.

Following the pioneering works of Easterlin (1995, 2001, 2005), one of the main questions has come to fore with the help of the paper done by Kahneman and Deaton (2010) in the context of economics of happiness: Can money buy life satisfaction, which can often be measured as material requirements? Some economists who agree with the idea that there should be an increase in the level of income in order for an increase in life satisfaction argue that a high level of life satisfaction is a fundamental criterion that increases social well-being. Besides, it is emphasized that low life satisfaction resulting from insufficient income level will reveal shortcomings that will reduce individual and social welfare. As noted by Huebner (1991), Grob et al. (1996), Granzin and Haggard (2000) and Bradley and Corwyn (2004), life satisfaction, which reflects the ability to meet basic needs and to achieve sustainable goals, can gain momentum because of raising income level. Besides, Beutell (2006) has also emphasized that in parallel with the increased income level, better physical and mental health can be achieved, a longer life can be sustained, education quality can be increased, and therefore overall material wealth can be raised. In addition to the positive effects of income level on life satisfaction, it is suggested that the social group in which individuals are involved is also important in order to strengthen the positive effects of income level on life satisfaction, in other words material well-being. The main point to be emphasized is that more income can raise the level of life satisfaction and happiness, however it is very difficult to increase the level of happiness once basic needs are met. Beyond the income threshold level where people are free from hunger, children do not die because of preventable diseases, people can equally and adequately utilize from education and health services and the poverty has been eliminated additional income can increase life satisfaction but not happiness. This result reflects that there can be a linear relationship between income and life satisfaction but a quadratic relationship between income and happiness. In other words, it can be said that additional income increases happiness up to an income threshold value, however once the income threshold is exceeded, the increased income has no effect on happiness.

The aim of this section is to provide an examination of whether there is an income threshold point which effects life satisfaction and happiness level in developed and developing countries using dynamic panel threshold model in the period of 1981-2014. If a threshold point is found, the paper tries to determine the validity of the non-linear relationship among the variables. The paper then adds some control variables into econometric model for robustness and checks how the linkage between income, life satisfaction and happiness changes. Besides, this paper tries to estimate the contribution of the control variables on life satisfaction and happiness level. The rest of the paper is organized as follows: Section 2 presents literature review related to the topic and section 3 describes the data set and empirical strategy. Section 4 presents the main findings on the linkage between income, life satisfaction and happiness and Section 5 introduces concluding remarks.

2. Literature Review

Numerous empirical studies have been conducted to find answers to the question of “can money buy happiness" which is one of the most controversial topics in social sciences and for this purposes it is tried to test the validity of the Easterlin paradox. The studies done by Veenhoven (1993), Inglehart and Klingemann (2000), Blanchflower and Oswald (2000), Frey and Stutzer (2002), Graham and Pettinato (2002) and Helliwell (2003) find similar results to Easterlin’s papers. In other words, these studies show little or no long-run linkage between average happiness and average per-capita income. In addition, Kahneman et al. (2006) argue that rising income level may not raise average happiness and that income-happiness nexus comes from a “focusing illusion”. Therefore, it can clearly be said that an increase in per-capita income level may not assure an increase in happiness level. This finding is in rapport with the paper done by Di Tella et al. (2007), suggesting that average happiness level follows average per-capita income level within four years. Besides, the study shows that an increase in per-capita income ensures a temporary improve to happiness. Such a result is akin to Veenhoven (1991) who claims that raising income accelerates happiness level until basic needs are met. When basic needs are met, more income does not matter for happiness.

Following Easterlin’s paper, a number of studies have been introduced in the context of income-happiness nexus in economics. The papers done by Diener and Oishi (2000), Hagerty and Veenhoven (2003), Ferrer-i-Carbonell (2005), Rojas (2007, 2011), Ball and Chernova

(2008), Caporale et al. (2009), Sacks et al. (2010) and Oshio et al. (2011) show that an increase in average per-capita income raises average happiness level. Besides, the relationship between per-capita income and happiness level has also been investigated by a number of other striking topics in economics, including lottery gains (Smith and Razzell, 1975; Brickman et al., 1978; Gardner and Oswald, 2001; Haisley et al., 2008), inequality (Alesina et al., 2004; Graham and Felton, 2006; Dynan and Ravina, 2007; Oishi et al., 2011; Sevinç et al., 2016), institutions (Frey and Stutzer, 2000a; Frey and Stutzer, 2000b; Graham and Pettinato, 2001; Dorn et al., 2007; Rode, 2013), inflation (Di Tella et al., 2001), climate (Rehdanz and Maddison, 2005; Cohen and Vandenbergh, 2008; Sekulova and van den Bergh, 2013), environment (Welsch, 2006; Ferrer-i-Carbonell and Gowdy, 2007; Brereton et al., 2008; Cunado and Gracia, 2013), education (Michalos, 2008; Cunado and Gracia, 2012; Chen, 2012), public policy (Layard, 2006; Helliwell, 2006; Johns and Ormerod, 2007; Ng, 2008; Easterlin, 2013), health (Sounders, 1996; Gerdtham and Johannesson, 2001; Deaton, 2008), democracy (Sevinç et al., 2016), working hours (Golden and Wiens-Tuers, 2006; Pouwels et al., 2008; Gash et al., 2010) and unemployment (Clark and Oswald, 1994; Kassenboehmer and Haisken-DeNew, 2009; Sevinç et al., 2016).

As Diener and Seligman (2004) noted, there are only small increases in happiness beyond some threshold points. Inglehart and Klingemann (2000) assert that further income beyond the threshold level which may be somewhere between $5,000 and $27,000 cannot generate more happiness. Besides, Frey and Stutzer (2002) put forward that when the income threshold level of $10,000 is reached, more income has a little effect on average happiness. A similar claim is made by Layard (2003) who argues that the happiness level remains unchanged if per-capita income surpasses $15,000. In his following paper, Layard (2005) re-estimates the income threshold level as $20,000. Recent work by Kahneman and Deaton (2010) provides evidence that emotional well-being and happiness rise with log income, but there is no further progress beyond an annual income of $75,000. They also assert that high income buys life satisfaction but not happiness and that low income is associated both with low life evaluation and low emotional well-being. Besides, Proto and Rustichini (2013) who emphasize a positive relationship between income and happiness level up to threshold level of $15,000 argue that the linkage between two variables ceases after the threshold income level is exceeded. In addition, the study done by Yüce Akıncı and Akıncı (2016) shows that an additional gain in income up to the income threshold level of $27,954 raises the happiness level, however beyond the income threshold, increases in income reduce the average happiness in developed countries. However, in the study where no income threshold levels are found for the developing country group, it is observed that average happiness increases in parallel with raising income level.

3. Data Set, Econometric Methodology and Model

In this section; the role of the relative income threshold between income, happiness, and life satisfaction level is examined using the dynamic panel threshold model for the period 1981-2014 in the context of 52 countries, 22 of which are developed, 18 of which are upper middle-income countries and 12 of which are lower middle-income countries. The countries included in the study are presented in appendix 1. The basic reason for the selection of the relevant period is due to the availability of the data set. Real GDP per capita is taken into account as a proxy of the income. Additional independent variables are also used to test the robustness of the analysis. The economic growth variable, which is used as a basic indicator of wealth in economics, has also been used and this variable is characterized as the growth rate of real GDP per capita. Two proxy variables have been used to measure whether a developed financial system can buy happiness and life satisfaction: Domestic credits provided by financial sector to the domestic market as a percent of GDP and broad money supply as a percent of GDP. Besides, in order to evaluate the effects of globalization process on happiness and life satisfaction, the sum of exports and imports of goods and services measured as a share of gross domestic product is taken into consideration as a proxy variable of globalization. The variables are obtained from the World Development Indicators, which are listed on the official website of the World Bank. On the other hand, the V10 statistic published by the World Values Survey is used to measure the variable of happiness. In this statistical type, six different answers given to the question of "are you happy?" and the percentage distribution of these answers are used. The answers are evaluated as "very happy, rather happy, not very happy, not at all happy, no answer, do not know". The analysis that are the subject of this study are based on the answers of "very happy" and "rather happy". Besides, the V23 statistic published by the World Values Survey is used to measure the variable of life satisfaction. In this statistical type, the question of “all things considered, how satisfied are you with your life as a whole these days?” is used and the responses are rated on a likert scale ranging from 1 to 10. 1 means that the subjects are “completely dissatisfied” and 10 means that the subjects are “completely satisfied”.

Dynamic panel threshold analysis introduced by Hansen (1999) and developed by Caner and Hansen (2004) and Kremer et al. (2013) is one of the most popular econometric methods for estimating the non-linear linkages among the variables. As Greene (2003) noted earlier, in both the fixed and random effects settings used in static panel data analysis, the difficulty is that the lagged dependent variable can be correlated with the disturbance term. Such a linkage between lagged dependent variable and disturbance term makes the findings and estimators obtained from the fixed and random effect models inconsistent and spurious. Therefore, the relationship between lagged values of dependent variable and disturbance term can be detached by using the dynamic panel data analysis and such a process makes the analysis more robust. Following Hansen (1999), Caner and Hansen (2004) and Kremer et al. (2013), the econometric methodology of dynamic panel threshold estimation is used in this study. Since we are trying to analyse the effects of income thresholds with the help of two different models in the linkages between income, life satisfaction and happiness, the endogenous regressors are defined as initial lifWe satisfaction ($\mathit{Life\ Satisfaction}_{it-1}$) and initial happiness ($\mathit{Happiness}_{it-1}$). The model used in the paper follows the cross-sectional threshold analysis of Caner and Hansen (2004: 815-816) and Kremer et al. (2013: 864) in which Generalized Method of Moments (GMM) estimation procedure is utilized to stand for endogeneity. In this context, a general form of panel threshold model can be defined as follows:

$$y_{it} = \mu_i + \beta_1' z_{it} I\left(q_{it} \leq \gamma\right) + \beta_2' z_{it} I\left(q_{it} > \gamma\right) + \varepsilon_{it} \tag{1}$$

where i $(i = 1,...,N)$ shows the country and t $(t = 1,...,T)$ represent the time. y_{it} indicates the dependent variable, μ_i is based on the country-specific fixed effect and ε_{it} is the error term. The indicator function, $I(\cdot)$, presents the regime behaviours represented by the threshold variable of q_{it}. γ indicates the threshold level and z_{it} consists of a set of independent variables that is based on m-dimensional vector. It is also possible that the explanatory variables can contain lagged values of the dependent regressor.

The first step of the estimation method is to dispose of the country-specific effects, μ_i, by means of a fixed effect transformation procedure. For this purpose, this study uses the forwards orthogonal deviations transformation introduced by Arellano and Bover (1995) to dispose of the country-specific fixed effects. The forward orthogonal deviations transformation can be calculated using the following equation numbered (2):

$$\varepsilon_{it}^{*} = \sqrt{\frac{T-t}{T-t+1}}\left[\varepsilon_{it} - \frac{1}{T-t}\left(\varepsilon_{i(t+1)} + ... + \varepsilon_{iT}\right)\right] \tag{2}$$

As Kremer et al. (2013) noted, the striking feature of the transformation process is that serial correlation of the transformed error terms can be avoided. This procedure allows us to transform a cross sectional model into a dynamic panel threshold regression as shown in equation numbered (1).

The second step of the estimation process is to perform Two Stage Least Squares (2SLS) method to determine the income threshold level. Following Caner and Hansen (2004: 818) and Kremer et al. (2013: 865), a reduced form of the regression for the independent variables of z_{it} as a function of the instrumental variants of x_{it} is estimated in the first phase. Then, the estimated values of independent variables of $\hat{z}_{it}$ are substituted in the structural model for the independent variables of z_{it}. In the second phase, by using predicted values of independent variables of $\hat{z}_{it}$, the regression equation numbered (1) is estimated with the help of Ordinary Least Squares method for a fixed threshold level of γ. Let $S(\gamma)$ define the sum of the squared residuals of least squares, this procedure is repeated until finding a suitable threshold value of γ that has the smallest sum of squared residuals. In other words, γ is called the threshold estimator that minimizes the sum of squared error terms:

$$\hat{\gamma} = \arg\min S\left(\gamma\right) \tag{3}$$

In order to determine the critical values for income threshold, the 95% confidence interval needs to be computed. Hansen (1999), Caner and Hansen (2004) and Kremer et al. (2013) suggest a constraint process which should be applied to find the optimal confidence values:

$$\Gamma = \{\gamma : LR(\gamma) \leq C(\alpha)\} \tag{4}$$

where, $LR(\gamma)$ is the asymptotic distribution of the likelihood ratio and $C(\alpha)$ is the 95% percentile concerning the distribution process. When the optimal threshold value $(\hat{\gamma})$ is determined, the slope coefficients can be predicted by applying GMM estimation process. To analyse the effect of income level on happiness and life satisfaction in the mentioned countries, the following dynamic panel threshold models are performed:

$$\begin{aligned} Happiness_{it} = {} & \mu_i + \beta_1 Income_{it} I(Income_{it} \leq \gamma) + \delta_1 I(Income_{it} \leq \gamma) \\ & + \beta_2 Income_{it} I(Income_{it} > \gamma) + \varnothing z_{it} + \varepsilon_{it} \end{aligned} \tag{5}$$

$$\begin{aligned} LifeSatisfaction_{it} = {} & \mu_i + \beta_1 Income_{it} I(Income_{it} \leq \gamma) + \delta_1 I(Income_{it} \leq \gamma) \\ & + \beta_2 Income_{it} I(Income_{it} > \gamma) + \phi z_{it} + \varepsilon_{it} \end{aligned} \tag{6}$$

where, income level $(Income_{it})$ represents both the threshold values and regime-dependent regressors for two different kinds of regime, δ_1 shows regime intercepts and z_{it} implies control variables or else regime-independent regressors. Following Bick (2010) and Kremer et al. (2013), initial happiness $(Happiness_{it-1})$ and initial life satisfaction $(Life\ Satisfaction_{it-1})$ are considered as the endogenous regressors. Besides, in accordance with Arellano and Bover (1995), we take into account all lags of the dependent variable as instrumental variables to reach the optimal findings which can be based on some number of instruments.

4. Empirical Findings

In this study, the relationship between income, happiness and life satisfaction is investigated by using dynamic panel threshold analysis for the period 1981-2014 in the context of 52 countries, 22 of which are developed, 18 of which are upper middle-income countries and 12 of which are lower middle-income countries. For this purpose, the findings of the empirical linkages are presented in Table 1-Table 3. The upper panel of table indicates the predicted values of income thresholds and the 95% confidence bounds relating to the thresholds. Besides, the middle panel exhibits the regime-dependent regressors of income level. In other words, this panel shows the marginal effects of income on happiness and life satisfaction in the light of low and high income regimes. Finally, the lower panel of the table denotes the regime-independent regressors which represent the impact of control variables on happiness and life satisfaction.

Table 1. Income Thresholds, Happiness and Life Satisfaction for Developed Countries

	Happiness		Life Satisfaction
Estimated Value of Income Threshold and Confidence Intervals			
$\hat{\gamma}$	\$33.558***		\$27.880***
95% Confidence Intervals	[\$25.441, \$41.286]		[\$22.336, \$34.118]
Regime-Dependent Regressors (Impact of Income Level)			
$\hat{\beta}_1$	0.132* (0.070)		0.146* (0.062)
$\hat{\beta}_2$	0.046 (0.211)		0.227*** (0.003)
Regime-Independent Regressors (Impact of Control Variables)			
$\hat{\delta}_1$	2.949*** (0.000)		0.247*** (0.007)
Happinesst-1	0.941*** (0.000)		
Happiness			0.001** (0.013)
Life Satisfactiont-1			0.955*** (0.000)
Life Satisfaction	0.296** (0.018)		
Economic Growth	0.033* (0.058)		0.087** (0.031)
Domestic Credits	0.001* (0.087)		0.183** (0.038)
Money Supply	0.112 (0.258)		0.048 (0.551)
Globalization	0.307* (0.079)		0.195* (0.089)
Statistics of the Models			
R2	0.646		0.743
F-Statistic (Prob)	5.206*** (0.002)		6.23*** (0.008)
DW	2.048		2.085
Observations	748		748
Cross-Sections	22		22

Notes: Probabilities are given in parentheses. ***, ** and * indicates the 1%, 5% and 10% significance levels. 500 bootstrap replications are used to obtain the p-values to test for the number of thresholds.

Table 2. Income Thresholds, Happiness and Life Satisfaction for Upper Middle-Income Countries

	Happiness	Life Satisfaction
Estimated Value of Income Threshold and Confidence Intervals		
$\hat{\gamma}$	$13.878***	$10.276***
95% Confidence Intervals	[$8.156, $17.330]	[$7.312, $14.740]
Regime-Dependent Regressors (Impact of Income Level)		
$\hat{\beta}_1$	0.226*** (0.000)	0.244*** (0.000)
$\hat{\beta}_2$	0.339 (0.195)	0.373*** (0.000)
Regime-Independent Regressors (Impact of Control Variables)		
$\hat{\delta}_1$	1.113* (0.088)	-0.582 (0.355)
Happinesst-1	1.311*** (0.006)	
Happiness		0.075** (0.046)
Life Satisfactiont-1		1.369*** (0.000)
Life Satisfaction	0.441** (0.023)	
Economic Growth	0.129** (0.044)	0.188*** (0.000)
Domestic Credits	0.043* (0.077)	0.460** (0.023)
Money Supply	-0.551 (0.411)	0.074 (0.876)
Globalization	-0.418** (0.037)	-0.351** (0.017)
Statistics of the Models		
R2	0.623	0.701
F-Statistic (Prob)	8.218*** (0.000)	7.555*** (0.000)
DW	2.018	1.991
Observations	612	612
Cross-Sections	18	18

Notes: Probabilities are given in parentheses. ***, ** and * indicates the 1%, 5% and 10% significance levels. 500 bootstrap replications are used to obtain the p-values to test for the number of thresholds.

Table 3. Income Thresholds, Happiness and Life Satisfaction for Lower Middle-Income Countries

	Happiness	Life Satisfaction
Estimated Value of Income Threshold and Confidence Intervals		
$\hat{g}$	\$9.388	\$8.600
95% Confidence Intervals	[\$11.861, \$15.550]	[\$9.522, \$11.113]
Regime-Dependent Regressors (Impact of Income Level)		
$\hat{b}_1$	0.331*** (0.000)	0.367*** (0.000)
$\hat{b}_2$	0.488*** (0.005)	0.501*** (0.000)
Regime-Independent Regressors (Impact of Control Variables)		
$\hat{d}_1$	0.665 (0.323)	-0.133 (0.744)
Happinesst-1	0.074 (0.891)	
Happiness		0.073* (0.098)
Life Satisfactiont-1		0.583 (0.309)
Life Satisfaction	0.551** (0.031)	
Economic Growth	0.144 (0.731)	0.216*** (0.003)
Domestic Credits	0.083* (0.075)	0.556** (0.033)
Money Supply	0.110 (0.699)	0.119** (0.029)
Globalization	-0.554*** (0.000)	-0.730*** (0.000)
Statistics of the Models		
R2	0.533	0.499
F-Statistic (Prob)	6.222*** (0.007)	4.886** (0.028)
DW	2.099	1.977
Observations	408	408
Cross-Sections	12	12

Notes: Probabilities are given in parentheses. ***, ** and * indicates the 1%, 5% and 10% significance levels. 500 bootstrap replications are used to obtain the p-values to test for the number of thresholds.

Table 1-Table 3 shows the findings of the two-regime dynamic panel threshold models between income, happiness and life satisfaction. The income threshold levels are estimated as \$33.558 and \$27.880 for happiness and life satisfaction in developed countries, \$13.878 and \$10.276 for happiness and satisfaction in upper middle-income countries, \$9.388 and \$8.600 for happiness and satisfaction in lower middle-income countries. Since the 95% confidence intervals include the income threshold values for developed and upper middle-income countries, it is possible to

say that the threshold levels are significant. But statistically significant income threshold value is not obtained for lower middle-income countries. Moreover, only one regime-dependent coefficients of income are significant and reasonably signed for happiness in developed and upper middle-income countries, while both of the regime-dependent coefficients of income are significant for happiness level in lower middle-income countries. Besides, both of the regime-dependent coefficients of income are significant for life satisfaction in all three groups of country. If the income levels are below the thresholds, they are positively correlated with happiness and life satisfaction in all three groups of country. Besides, in the presence of higher income levels, more income is useless to be happier in developed and upper middle-income countries, but this result is not valid in lower middle-income countries. In other words, more income guarantees more happiness in lower middle-income countries. It can be said that in the early phase of development, increasing income level is to be positively related to happiness in developed and upper middle-income countries, but beyond the threshold point more income is failed to increase happiness statistically. But, in the both early and later phase of development, increasing income level is to be positively related to happiness in lower middle-income countries. Also, it can be noted that income level leads life satisfaction follows in all three groups of country. In this manner all results can be interpreted as follow: income is needed to increase life satisfaction, but there is a need for more than income level in order to increase happiness. However, the relationship between income and happiness can vary depending on where you live. In addition, the absolute sizes of income coefficients indicate that the effect of income level on life satisfaction is stronger than that of happiness. It means that any rise in income level increases satisfaction more than happiness. It is possible to say that our results support the hypothesis that income increases happiness in the early phase of economic growth process, but income cannot guaranties to be happier in the later stage of growth as suggested by Easterlin.

Additionally, our analysis goes further by attempting to investigate the possible effects of regime-independent variables on happiness and life satisfaction. It can be observed that the happiness and life satisfaction are interdependent variables, indicating that a rise in happiness level increases life satisfaction and vice versa. Besides, the process of economic growth enhances the level of happiness and life satisfaction in developed and upper middle-income countries, but growth process cannot increase happiness level in lower middle-income countries. It can be said that the benefits of growth may not be distributed to the whole country. But, growth process can trigger the level of satisfaction positively in all three groups of country. The results of the analysis indicating the efficiency of financial development measured as domestic credits on happiness and life satisfaction show the importance of the depth of a financial system on the spiritual and material wealth. Besides, the results of the analysis show that more money measured as money supply cannot increase the spiritual and material wealth in developed and upper middle-income countries. In lower middle-income countries, money does not guarantee to be happy while it provides the life satisfaction. Besides, it is observed from the results that globalization process has a positive impact on happiness and life satisfaction in developed countries, but more globalized world is failed to enhance happiness and life satisfaction in middle-income countries. In other words, globalization process has a negative effect on happiness and life satisfaction in middle-income countries.

5. Conclusion

The purpose of the section is to investigate the relationship between income, happiness and life satisfaction using dynamic panel threshold analysis for the period 1981-2014 in the context of 52 countries, 22 of which are developed, 18 of which are upper middle-income countries and 12 of which are lower middle-income countries. Therefore, the basic question of this section is whether money can buy happiness and life satisfaction or not.

At the first stage in the regression analysis, an income threshold value is found for developed and upper middle-income countries. However, any significant income threshold level can be found for lower middle-income countries. At the second stage in the regression analysis the effects of income on happiness and life satisfaction are estimated and the results of the analysis show that in developed and upper middle-income countries happiness and life satisfaction levels tend to rise with income up to the threshold, but beyond the certain income threshold per-capita income level does not have any significant effect on happiness, but life satisfaction. This result supports the validity of Easterlin paradox in developed and upper middle-income countries. In addition, the findings showing no significant income threshold value for lower middle-income countries point out that happiness and life satisfaction increase in parallel with income, supporting the idea that income leads happiness and satisfaction follow. In other words, more income guarantees more happiness in lower middle-income countries. Also, it can be noted that income level leads life satisfaction follows in all three groups of country. In this manner all results can be interpreted as follow: income is needed to increase life satisfaction, but there is a need for more than income level in order to increase happiness. Besides, the effect of economic growth process on happiness is found statistically significant for developed and upper middle-income countries, but same results cannot be obtained for lower middle-income countries. Therefore, it is possible to say that the benefits of growth may not be distributed to the whole country. Besides, the importance of the depth of a financial system on the spiritual and material wealth is observed for all groups of country. In addition, it is observed that in lower middle-income countries, money cannot guarantee to be happy as it can in developed and upper middle-income countries while it provides the life satisfaction only in lower middle-income countries. Finally, it is observed from the results that globalization process has a positive impact on happiness and life satisfaction in developed countries, but more globalized world is failed to enhance happiness and life satisfaction in middle-income countries.

When the results of the analysis are evaluated as a whole, it can be stated that income can buy happiness economically in all groups of country, in other words income has a purchasing power to be happy. Such a result is striking in that macroeconomic conditions, which can be linked to increasing income, can affect the level of happiness. However, beyond the income threshold in developed and upper middle-income countries, obtaining the non-significant relationship between income and happiness level makes it a necessity to search the basic factors of happiness apart from the indicators related to income. Therefore, it is necessary to look for the roots of happiness in social, cultural, geographical, ethnic, sociological and moral grounds in the high-income regimes, in other words, it is important to figure out the fundamental determinants of happiness rather than the approximate determinants of happiness. Besides, it can be said that increasing in income triggers the more happiness level in middle-income countries and consequently the main axis of the achievement of the happiness of the social classes is to earn more money. However, the development stage of the countries also plays a major role to purchase happiness and life satisfaction. In the early phase of the development, the level of income is enough to purchase happiness, but in the later stage of development more income is useless to be happier and there is a need for more than income level in order to increase happiness. Therefore, the governments should pursuit efficient social development programs as well as macroeconomic policies to enhance the level of happiness and life satisfaction. In this context, the need for rapid economic growth, the existence of an advanced financial system and efficient processing of monetary dynamics as well as sophisticated social infrastructure can be emphasized in order to increase happiness and life satisfaction. Therefore, it can be said that income and macroeconomic indicators which increase income level can buy happiness and life satisfaction, but it generally depends where you live, your development stage and position of your country in the globalization process.

References

Alesina, A., Di Tella, R. & MacCulloch, R. (2004). Inequality and Happiness: Are Europeans and Americans Different?. Journal of Public Economics, 88(9-10), 2009-2042.

Alexander, S. (2012). The Optimal Material Threshold: Toward an Economics of Sufficiency. Real-World Economics Review, 61, 2-21.

Arellano, M. & Bover, O. (1995). Another Look at the Instrumental Variables Estimation of Error-Components Models. Journal of Econometrics, 68(1), 29-51.

Ball, R. & Chernova, K. (2008). Absolute Income, Relative Income and Happiness. Social Indicators Research, 88(3), 497-529.

Beutell, N. J. (2006). Life Satisfaction in Relation to Work and Family. E. Kossek & M. Pitt-Catsouphes (Eds.). Work and Family Encyclopedia, Chestnut Hill, MA: Sloan Work and Family Research Network.

Bick, A. (2010). Thresholds Effects of Inflation on Economic Growth in Developing Countries. Economics Letters, 108(2), 126-129.

Blanchflower, D. & Oswald, A. (2000). Well-Being over Time in Britain and the USA. NBER Working Paper, No: W6102.

Bradley, R. H. & Corwyn, R. F. (2004). Life Satisfaction among European American, African American, Chinese American, Mexican American and Dominican American Adolescents. International Journal of Behavioral Development, 28(5), 385-400.

Brereton, F., Clich, J. P. & Ferreira, S. (2008). Happiness, Geography and the Environment. Ecological Economics, 65(2), 386-396.

Brickman, P. C. D., Coates, D. & Janoff-Bulman, R. (1978). Lottery Winners and Accident Victims: Is Happiness Relative?. Journal of Personality and Social Psychology, 36(8), 917-927.

Caporale, G. M., Georgellis, Y., Tsitsianis, N. & Yin, Y. P. (2009). Income and Happiness across Europe: Do Reference Values Matter?. Journal of Economic Psychology, 30(1), 42-51.

Caner, M. & Hansen, B. E. (2004). Instrumental Variable Estimation of a Threshold Model. Econometric Theory, 20, 813-843.

Chen, W. C. (2012). How Education Enhances Happiness: Comparison of Mediating Factors in Four East Asian Countries. Social Indicators Research, 106(1), 117-131.

Clark, A. E. & Oswald, A. J. (1994). Unhappiness and Unemployment. The Economic Journal, 104(424), 648-659.

Cohen, M. A. & Vandenbergh, M. P. (2008). Consumption, Happiness and Climate Change. Resource of the Future Discussion Paper, No: 08-39.

Cunado, J. & Gracia, F. P. (2012). Does Education Affects Happiness? Evidence for Spain. Social Indicators Research, 108(1), 185-196.

Cunado, J. & Gracia, F. P. (2013). Environment and Happiness: New Evidence for Spain. Social Indicators Research, 112(3), 549-567.

Deaton, A. (2008). Income, Health and Well-Being around the World: Evidence from the Gallup World Pool. Journal of Economic Perspectives, 22(2), 53-72.

Di Tella, R., MacCulloch, R. J. & Oswald, A. J. (2001). Preferences over Inflation and Unemployment: Evidence from Surveys of Happiness. The American Economic Review, 91(1), 335-341.

Di Tella, R., Haisken-De New, J. & MacCulloch, R. (2007). Happiness Adaptation to Income and to Status in an Individual Panel. NBER Working Paper, No: 13159.

Diener, E. & Oishi, S. (2000). Money and Happiness: Income and Subjective Well-being across Nations. E. Diener & E. M. Suh (Eds.). Culture and Subjective Well-Being, The USA: The MIT Press.

Diener, E. & Seligman, M. E. P. (2004). Beyond Money: Toward an Economy of Well-Being. Psychological Science in the Public Interest, 5(1), 1-31.

Dorn, D., Fischer, J. A. V., Kirchgassner, G. & Sousa-Poza, A. (2007). Is It Culture or Democracy? The Impact of Democracy and Culture on Happiness. Social Indicators Research, 82(3), 505-526.

Dynan, K. E. & Ravina, E. (2007). Increasing Income Inequality, External Habits and Self-Reported Happiness. American Economic Review, 97(2), 226-231.

Easterlin, R. A. (1974). Does Economic Growth Improve the Human Lot? Some Empirical Evidence. P. David & M. Reder (Eds.). Nations and Households in Economic Growth: Essays in Honour of Moses Abramovitz, New York: Academic Press.

Easterlin, R. A. (1995). Will Raising the Incomes of All Increase the Happiness of All?. Journal of Economic Behavior and Organization, 27(1), 35-48.

Easterlin, R. A. (2001). Income and Happiness: Towards a Unified Theory. The Economic Journal, 111(473), 465-484.

Easterlin, R. A. (2005). Feeding the Illusion of Growth and Happiness: A Reply to Hagerty and Veenhoven. Social Indicators Research, 74(3), 429-443.

Easterlin, R. A. (2013). Happiness, Growth and Public Policy. Economic Inquiry, 51(1), 1-15.

Ferrer-i-Carbonell, A. (2005). Income and Well-Being: An Empirical Analysis of the Comparison Income Effect. Journal of Public Economics, 89(5-6), 997-1019.

Ferrer-i-Carbonell, A. & Gowdy, J. M. (2007). Environmental Degradation and Happiness. Ecological Economics, 60(3), 509-516.

Frey, B. S. & Stutzer, A. (2000a). Happiness, Economy and Institutions. The Economic Journal, 110(446), 918-938.

Frey, B. S. & Stutzer, A. (2000b). Happiness Prospers in Democracy. Journal of Happiness Studies, 1(1), 79-102.

Frey, B. S. & Stutzer, A. (2002). What Can Economists Learn from Happiness Research?. Journal of Economic Literature, 40(2), 402-435.

Gardner, J. & Oswald, A. (2001). Does Money Buy Happiness? A Longitudinal Study Using Data on Windfalls. Warwick University mimeo.

Gash, V., Mertens, A. & Gordo, L. R. (2010). Women between Part-Time and Full-Time Work: The Influence of Changing Hours of Work on Happiness and Life-Satisfaction. SOEPpapers, No: 268.

Gerdtham, U. & Johannesson, M. (2001). The Relationship between Happiness, Health and Socio-Economic Factors: Results Based on Swedish Microdata. The Journal of Socio-Economics, 30(6), 553-557.

Golden, L. & Wiens-Tuers, B. (2006). To Your Happiness: Extra Hours of Labor Supply and Worker Well-Being. The Journal of Socio-Economics, 35(2), 382-397.

Graham, C. & Pettinato, S. (2001). Happiness, Markets and Democracy: Latin America in Comparative Perspective. Journal of Happiness Studies, 2(3), 237-268.

Graham, C. & Pettinato, S. (2002). Happiness and Hardship: Opportunity and Insecurity in New Market Economies. Washington: The Brookings Institution Press.

Graham, C. & Felton, A. (2006). Inequality and Happiness: Insights from Latin America. Journal of Economic Inequality, 4(1), 107-122.

Granzin, K. L & Haggard, L. M. (2000). An Integrative Explanation for Quality of Life: Development and Test of a Structural Model. E. Diener & D. R. Rahtz (Eds.). Advances in Quality of Life Research (pp. 31-63), London: Kluwer Publishing.

Greene, W. H. (2003). Econometric Analysis. Fifth Edition, New Jersey: Prentice Hall.

Grob, A., Little, T. D., Wanner, B. & Wearing, A. J. (1996). Adolescents' Well-Being and Perceived Control across 14 Sociocultural Context. Journal of Personality and Social Psychology, 71, 785-795.

Hagerty, M. & Veenhoven, R. (2003). Wealth and Happiness Revisited-Growing National Income Does Go with Greater Happiness. Social Indicator Research, 64(1), 1-27.

Haisley, E., Mostafa, R. & Loewenstein, G. (2008). Subjective Relative Income and Lottery Ticket Purchases. Journal of Behavioral Decision Making, 21(3), 283-295.

Hansen, B. E. (1999). Threshold Effects in Non-Dynamic Panels: Estimation, Testing, and Inference. Journal of Econometrics, 93(2), 345-368.

Helliwell, J. F. (2003). How's Life? Combining Individual and National Variables to Explain Subjective Well-Being. Economic Modelling, 20(2), 331-360.

Helliwell, J. F. (2006). Well-Being, Social Capital and Public Policy: What's New?. The Economic Journal, 116(510), 34-45.

Huebner, E. S. (1991). Correlates of Life Satisfaction in Children. School Psychology Quarterly, 6, 103-111.

Inglehart, R. (1990). Culture Shift in Advanced Industrial Society. New Jersey: Princeton University Press.

Inglehart, R. & Klingemann, H. D. (2000). Genes, Culture and Happiness. E. Diener & E. Suh (Eds.). Culture and Subjective Wellbeing, Cambridge: MIT Press.

Johns, H. & Ormerod, P. (2007). Happiness, Economics and Public Policy. Institute of Economic Affairs Research Monograph, No: 62.

Kahneman, D., Krueger, A. B., Schkade, D., Schwarz, N. & Stone, A. (2006). Would You Be Happier If You Were Richer? A Focusing Illusion. Science, 312(5782), 1908-1910.

Kahneman, D. & Deaton, A. (2010). High Income Improves Evaluation of Life But Not Emotional Well-Being. Proceedings of the National Academy of Sciences, 107(38), 16489-16493.

Kassenboehmer, S. C. & Haisken-DeNew, J. P. (2009). You're Fired! The Causal Negative Effect of Entry Unemployment on Life Satisfaction. The Economic Journal, 119(536), 448-462.

Kremer, S., Bick, A. & Nautz, D. (2013). Inflation and Growth: New Evidence from a Dynamic Panel Threshold Analysis. Empirical Economics, 44(2), 861-878.

Lane, R. E. (2000). The Loss of Happiness in Market Democracies. New Heaven: Yale University Press.

Layard, R. (2003). Happiness: Has Social Science a Clue. Lionel Robbins Memorial Lectures, No: 2002/3, London: London School of Economics.

Layard, R. (2005). Happiness: Lessons from a New Science. London: Penguin Books.

Layard, R. (2006). Happiness and Public Policy: A Challenge to the Profession. The Economic Journal, 116(510), 24-33.

Michalos, A. C. (2008). Education, Happiness and Wellbeing. Social Indicators Research, 87(3), 347-366.

Ng, Y. K. (2008). Happiness Studies: Ways to Improve Comparability and Some Public Policy Implications. Economic Record, 84(265), 253-266.

Oishi, S., Kesebir, S. & Diener, E. (2011). Income Inequality and Happiness. Psychological Science, 22(9), 1095-1100.

Oshio, T., Nozaki, K. & Kobayashi, M. (2011). Relative Income and Happiness in Asia: Evidence from Nationwide Surveys in China, Japan and Korea. Social Indicators Research, 104(3), 351-367.

Pouwels, B., Siegers, J. & Vlasblom, J. D. (2008). Income, Working Hours and Happiness. Economics Letters, 99(1), 72-74.

Proto, E. & Rustichini, A. (2013). A Reassessment of the Relationship between GDP and Life Satisfaction. PLoS ONE, 8(11), e79358.

Rehdanz, K. & Maddison, D. (2005). Climate and Happiness. Ecological Economics, 52(1), 111-125.

Rode, M. (2013). Do Good Institutions Make Citizens Happy or Do Happy Citizens Build Happy Institutions?. Journal of Happiness Studies, 14(5), 1479-1505.

Rojas, M. (2007). Heterogeneity in the Relationship between Income and Happiness: A Conceptual-Referent-Theory Explanation. Journal of Economic Psychology, 28(1), 1-14.

Rojas, M. (2011). Happiness, Income and Beyond. Applied Research in Quality of Life, 6(3), 265-276.

Sacks, D. W., Stevenson, B. & Wolfers, J. (2010). Subjective Well-Being, Income, Economic Development and Growth. NBER Working Paper, No: 16441.

Sekulova, F. & van den Bergh, J. C. J. M. (2013). Climate Change, Income and Happiness: An Empirical Study for Barcelona. Global Environmental Change, 23(6), 1467-1475.

Sevinç, H., Akıncı, M. & Yılmaz, Ö. (2016). Mutluluğun Resmini Çizmek: Sosyo-Ekonomik Belirleyicilere İlişkin Bir Yatay Kesit Analizi. ÜNİDAP Uluslararası Bölgesel Kalkınma Konferansı: Sosyal Kalkınma, 28-30 Eylül 2016, Muş-Türkiye.

Smith, S. & Razzell, P. (1975). The Pools Winners. London: Caliban Books.

Sounders, P. (1996). Income, Health and Happiness. Australian Economic Review, 29(4), 353-366.

Veenhoven, R. (1991). Is Happiness Relative?. Social Indicators Research, 24(1), 1-34.

Veenhoven, R. (1993). Happiness in Nations: Subjective Appreciation of Life in 56 Nations, 1946-1992. The Netherlands: Erasmus University Press.

Welsch, H. (2006). Environment and Happiness: Valuation of Air Pollution Using Life Satisfaction Data. Ecological Economics, 58(4), 801-813.

Yüce Akıncı, G. & Akıncı, M. (2016). Bir Tutam Mutluluk Kaç Para Eder? Ülke Grupları İtibariyle Dinamik Panel Eşik Modeli. International Congress of Management, Economy and Policy, 26-27 November 2016, İstanbul-Turkey.

Appendix 1.
Countries Included in the Analysis

Developed Countries
Australia, Finland, Hungary, Japan, Sweden, The USA, South Korea, Chile, Czech Republic, Poland, Slovakia, Spain, Switzerland, Estonia, Germany, New Zealand, Norway, Slovenia, United Kingdom, Uruguay, Cyprus, The Netherlands
Upper Middle-Income Countries
Argentina, Mexico, South Africa, Brazil, Belarus, China, Russia, Turkey, Albania, Azerbaijan, Bulgaria, Colombia, Peru, Romania, Serbia, Montenegro, Malaysia, Thailand
Lower Middle-Income Countries
India, Nigeria, Armenia, Georgia, Moldova, Pakistan, The Philippines, Ukraine, Jordan, Morocco, Egypt, Ghana,

In order to classify the countries, the Atlas Method introduced by World Bank is taken into consideration. For the current 2019 fiscal year, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of $995 or less in 2017; lower middle-income economies are those with a GNI per capita between $996 and $3,895; upper middle-income economies are those with a GNI per capita between $3,896 and $12,055; high-income economies are those with a GNI per capita of $12,056 or more.

PART III.

CHAP 4.

THE IMPACTS OF DOMESTIC AGRICULTURAL CREDIT VOLUME ON ECONOMIC DEVELOPMENT: A TURKISH CASE (1995-2018)

Asst. Prof. Dr. Ayberk Nuri BERKMAN[*]

Introduction

Determination of the existence and direction of the interaction between economic development and financial improvement is matters much for economists. Financial improvement is expressed as the prevalence of financial services and the development of financial organizations (Chang and Caudill, 2005). Financial improvement ensures that savings can be turned into investment and economic development by transferring the surplus of funds within the financial system to the productive units in need. Besides, economic development provides a financial improvement by increasing the demand for financial services (Levine, 2005). In the literature, studies conducted on the subject are based on Schumpeter's opinions, and different views, especially on the direction of the subject, have emerged. These views were pioneered by Schumpeter, Robinson, and Lucas. Schumpeter (1912) claimed that the causality runs from financial improvement toward economic development, notwithstanding Robinson (1952) proposed otherwise (Levine, 1997). Lucas (1988), however, stated the non-existence of causality between economic development and financial improvement. Another view suggests a bilateral causality interaction between the two variables (Mercan, 2013).

The interaction between financial improvement and economic development in Turkey is analyzed via the application of tests considering the impact of structural breaks on the series. In the following part of the study, a literature review that examines the interaction between economic development and financial improvement is presented. In the third part, the analysis methods are introduced. The dataset and findings are mentioned in the fourth part, and the study is finalized with the conclusion in the fifth part.

* Nigde Omer Halisdemir University, ayberk_berkman@yahoo.com

Literature Review

Economists have different views and priorities on the worthiness of the financial system in terms of economic development. The first one of those views, namely, the supply-leading approach argues that financial improvement results in a positive impact on economic development. Schumpeter claimed that the well-functioning banking system finances entrepreneurs who successfully implement innovative product and manufacturing processes by encouraging technological innovation and enabling economic development (Levine, 1997). Goldsmith (1969), McKinnon (1973) and some other researchers have also shown the existence of an affirmative influence of financial improvement on economic development.

Nonetheless, Robinson (1952) put forward the demand-following notion along with the expression "Where enterprises lead, finance follows." According to this view, it is argued that financial improvement has emerged as a result of economic development. In another view asserted a bilateral interaction between those two concepts. However, some economists found that the interaction between economic development and financial improvement is not important. Thus, the supporters of the latter view backed the notion that there was no causality interaction between the two variables mentioned by Lucas (1988).

There are several empirical studies that examine the interaction between economic development and financial improvement in terms of panel data, time-series and cross-sectional analyses. The studies that examine the interaction via cross-sectional analyses include Roubini and Sala-i-Martin (1992), King and Levine (1993), and De Gregorio and Guidotti (1995) who concluded that financial improvement has a affirmative effect on economic development. The studies that examine the relationship via time-series analyses include Gupta (1984), Greenwood and Jovanovic (1990), Thornton (1994), Demetriades and Luintel (1996), Demetriades and Hussein (1996), Arestis and Demetriades (1997), as well as Shan et al. (2001). Levine et al. (2000), Xu (2000), Beck et al. (2000), Christopoulos and Tsionas (2004), Hassan et al. (2011), Bittencourt (2012) and Narayan and Narayan (2013) are among the ones who conducted panel data analyses in their studies. Findings obtained from empirical studies investigating the interaction between economic development and financial improvement would tend to differ. Demetriades and Hussein (1996) have achieved different results for the sixteen countries involved in the analysis. A causality interaction from financial improvement to economic development is found in Sri Lanka, Honduras, and Spain. A bilateral causality interaction is detected in seven out of the remaining thirteen countries, while a causality interaction from financial improvement to economic development is revealed for the other six countries including Turkey. Al-Yousif (2002) studied 30 developing countries for the period 1970-1999 and detected no interaction between economic development and financial improvement for the examined countries. Frimpong and Adam (2009) investigated the argument that financial improvement for Ghana being the reason for economic development throughout the 1970-2007 period. Johansen cointegration and the Granger causality tests revealed an interaction between financial improvement and economic development.

Following are the studies conducted for Turkey:

Altıntaş and Ayrıçay (2010) revealed a long-term interaction from financial improvement towards economic development using Johansen cointegration and Granger causality tests over the period 1987-2007.

In another study, Ceylan and Duran (2010) found a unilateral interaction from economic development to financial improvement as a result of their analysis utilizing the quarterly data obtained over the period 1998-2008.

Özcan and Arı (2011) applied the Granger causality test for the period 1998-2009 period using a Vector Autoregressive (VAR) model analysis and found an interaction from economic development to financial development.

Karaca (2012) found a unilateral causality interaction from financial improvement to economic development using causality analysis over the period 1990:01 - 2011:04.

Mercan (2013) detected a bilateral causality interaction between economic development and financial improvement as the result of ARDL bound and Granger causality tests applied over the period 1992:01 - 2011:03.

Karahan et al. (2018) explicated the causality between economic development and bank credits via employing Johansen cointegration and Granger causality tests to data over the period 2002-2016. They found a bilateral causality between the economic development and bank credits.

Methodology

The aim of the study is to analyze the nexus of the economic development and domestic agricultural credit volume facilitated by the domestic banking sector in Turkey by utilizing quarterly data obtained between 1995(Q1) – 2018(Q1). To this end, Johansen cointegration test, Granger causality test, and ADF-GLS unit root test are conducted. The analysis results in the 1st-order stationarity and no long-term nexus between the series. Following the Granger causality test, no causality whatsoever is found among the series. Economic time series are exposed to structural breaks based on the variability in the structure of the economy, economic and political depressions, and changes in policy regime. If the structural changes caused by the mentioned factors are not taken into account, the findings would be misleading. Data on the variables, namely, the domestic agricultural credit volume (DACV) and the gross domestic product (GDP) are obtained covering the period 1995: Q1-2018: Q1. Throughout the examined period, tests which take structural breaks into consideration due to capital outflows in the economy with the Russian crisis, the earthquake disaster of 1999, banking sector crisis of November 2000, financial crisis of February 2001, and the 2008 global crisis are performed.

Dataset And Findings

In the empirical part of the study, the Gross Domestic Product (GDP) representing the economic development and the domestic agricultural credit volume (DACV) series of the banking sector deposit banks between 1995:Q1-2018:Q1 are analyzed. The series is obtained from Electronic Data Dissemination System (EDDS) in the Central Bank of the Republic of Turkey (CBRT). The GDP series of data used in the study are based on 1998 in real terms. The DACV series are prepared in real terms using the 1998-based GDP deflator. Moving average methods are applied to isolate the seasonal fluctuations in the GDP series. Analyzes are performed by taking the logarithms of the GDP and DACV series to get rid of seasonality. It is thought that some of the structural changes in the LGDP and LDACV series are the result of the improvements resulting from the dynamics of the country as well as the developments experienced in the international markets as of the period studied in the study. In this part of the study, ADF-GLS unit root test, the Johansen cointegration test, and the Granger causality test are performed, respectively.

Therefore, ADF-GLS unit root test is performed on series first in order to determine whether or not they are stationary. In accordance with the unit root test, it is determined that the series are stationary and they clearly contain unit root problem. Therefore, the 1st differences of the series are taken, and it is concluded that they become stationary.

Table 1. ADF-GLS Unit Root Test Results for LDACV and LGDP

Variables	ADF-GLS	
	Level	1st Difference
LGDP (constant)	3.3453	-42.0578*
LGDP (constant + trend)	-2.7383	-2.7847
LDACV (constant)	-2.5812	-10.2944*
LDACV (constant + trend)	-1.9149	-5.2742*

*indicates significance at the 1% significance level. Akaike Information Criteria are used to determine the optimum lag length

Table 2. Tests Results Regarding the Determination of Lag Lengths

Lags	LR	Akaike IC	Hannan-Quinn	FPE	SIC
0	-	0.97123343	1.0385723	0.003746	1.0861439
1	299.34215	-5.4757834	-5.8124334	9.49e-06	-5.7366313
2	17.944526	-6.1289482	-5.3756135	7.89e-06	-5.3065352
3	20.422193	-6.2631432	-6.3288942	6.23e-06	-5.7821542
4	71.933752	-7.8366363	-7.6415344	1.49e-06	-7.1287174
5	37.8385673*	-8.482465*	-8.028463*	7.92e-07*	-7.228465*

The results of ADF-GLS unit root test, which endogenously determines the structural break at the series, are given in Table 1. The alternative hypothesis cannot be accepted since the calculated test statistics are lower at five percent significance level.

Table 2 shows that the test statistics obtained for each model happen to be lower than the critical values at 5% significance level. In this case, the basic hypothesis claiming the existence of a unit root existence without any structural break cannot be rejected. Upon examining the break dates that are determined endogenously by ADF-GLS unit root test, the second quarter of 2001 and the third quarter of 2008 loom large. Upon considering the second quarter of the LGDP series, it is seen that the local minimum point has been reached due to the detrimental impacts of February 2001 crisis. The global crisis of 2008 which set out in the last quarter of 2007 in the USA, later accounted for the recession that lasted until 2009 in Turkey's economy within the last quarter of 2008. Johansen cointegration test is performed to explicate any probable long-term interaction between LGDP and LDACV series which are determined to be stationary of the first degree as a result of the unit root test with structural breaks.

Table 3. Johansen Cointegration Test Results

Hypothesis	Trace Statistics	Critical Value (0.05)	Max-Eigenvalue Statistics	Critical Value (0.05)
H0: ψ=0, H1: ψ=1	59.17367	24.92374	50.03723	20.29667
H0: $\psi\leq$0, H1: ψ=2	9.59346	13.85371	9.67824	11.99475

When Table 3 is examined, the basic hypothesis claiming the non-existence of a long-term interaction between those series cannot be rejected since the test statistics calculated for each model do not exceed the corresponding critical value at the 5% significance level. The structural breaks that Johansen cointegration test identifies endogenously draw attention to the February 2001 crisis and its adverse impacts. The Granger causality test is carried out using the VAR model using the first order of stationary LGDP and LDACV models.

Table 4. Granger Causality Test Results

Direction	Lag Length	F-statistics	The probability of Test Statistics
ΔLGDP → ΔLDACV	5	4.8385	0.37645
ΔLDACV → ΔLGDP	5	0.4536	0.42856

Upon examining Table 4, it is determined that no long-run causality interaction exists between the ΔLGDP and ΔLDACV. It is also shown that no long-term interaction between LGDP representing economic development and LDACV series representing a financial improvement exists, and there is no causal interaction between ΔLGDP and ΔLDACV series.

Conclusion

When the studies explicating the interaction of economic development and financial improvement are examined, the structural breaks that took place during the data period are not considered. In this study, tests are performed to investigate the existence of unit root in Logarithmic Gross Domestic Product (LGDP) and Logarithmic Domestic Agricultural Credit Volume (LDACV) series and to take into account possible structural breaks regarding the long-term interaction between the mentioned series. In the study, the series are found to be stationary at the first degree; it is determined that there is no long-term interaction between them. Also, there is no causal relationship between the two series as the result of applied Granger causality test. The domestic agricultural credit loans provided by the domestic banks in Turkey have grown five-fold throughout 1995-2018.

However, in the last quarter of 2007, the instability and contraction of money and capital markets in the United States soon became global. The influence of the global crisis in the last quarter of 2008 began to inflict Turkey’s economy. Due to such factors as profound equity structure of the domestic banks operated in Turkey over the period 2002-2008, increasing demand for the Turkish Lira, the economy's growth performance and availability of low-cost resources from abroad; a high growth rate of domestic agricultural credit supply have continued until the last quarter of 2008. Turkey attained the high economic growth rates throughout the periods of financial instability (2000-2001 and 2002-2007) as a result of reforms implemented in the following years. By the year 2012, the growth rate of the economy was 2.2 percent.

In this study, tests that take structural breaks into account are used. No causality interaction is detected between domestic agricultural credit volume and economic development throughout the examined period in the context of the findings obtained in this study. Consequently, upon examining Turkey’s credit composition offered by domestic deposits banks, it is determined that credit growth, which cannot be the reason of economic development, may lead to risks of inflation and deficit current account issues.

References

Al-Yousif, Y.K. (2002), "Financial Development and Economic Growth: Another Look at the Evidence From Developing Countries", Review of Financial Economics, 11: 131-150

Arestis, P. and Demetriades, P. (1997), "Financial Development and Economic Growth: Assessing the Evidence", The Economic Journal, 107: 783-799.

Altıntaş, H., ve Ayrıçay, Y. (2010). Türkiye'de Finansal Gelişme ve Ekonomik Büyüme İlişkisinin Sınır Testi Yaklaşımıyla Analizi: 1987–2007.

Beck, T., Levine, R. and Loayza, N. (2000), "Finance and The Sources of Growth", Journal of Financial Economics, 58: 261-300.

Bittencourt, M. (2012), "Financial Development and Economic Growth in Latin America: Is Schumpeter Right?", Journal of Policy Modeling, 34: 341-355.

Ceylan, S. ve Durkaya, M. (2010), "Türkiye'de Kredi Kullanımı - Ekonomik Büyüme İlişkisi", Atatürk Üniversitesi İktisadi ve İdari Bilimler Dergisi, 24(2): 21-33.

Chang, T., and Caudill, S.B. (2005). Financial Development and Economic Growth: The Case of Taiwan. Applied Economics, 37(12), 1329-1335.

Christopoulos, D.K. and Tsionas, E.G. (2004), "Financial Development and Economic Growth: Evidence From Panel Unit Root and Cointegration Tests", Journal of Development Economics, 73(1): 55-74.

De Gregorio, J., and Guidotti, P.E. (1995). Financial Development and Economic Growth. World Development, 23(3), 433-448.

Demetriades, P.O. and Hussein, K.A. (1996), "Does Financial Development Cause Economic Growth? Time-Series Evidence from 16 Countries", Journal of Development Economics, 51(2): 387-411.

Demetriades, P. O. and Luintel, K.B. (1996), "Financial Development, Economic Growth and Banking Sector Controls: Evidence from India", Economic Journal, 106: 359-374.

Frimpong, S. and Adam, M.A. (2010), "Does Financial Sector Development Cause Investment and Growth? Empirical Analysis of the Case of Ghana", Journal of Business and Enterprise Development, 2: 67-84.

Goldsmith, R.W. (1969), Financial Structure and Development, New Haven, CT: Yale University Press.

Greenwood, J., & Jovanovic, B. (1990). Financial Development, Growth, and the Distribution of Income. Journal of Political Economy, 98(5, Part 1), 1076-1107.

Gupta, K.L. (1984), Finance and Economic Growth in Developing Countries, London: Croom Helm.

Hassan, M.K., Sanchez, B. and Yu, J.S. (2011), "Financial Development and Economic Growth: New Evidence from Panel Data", The Quarterly Review of Economics and Finance, 51: 88-104.

Johnson, J. (2009) "Rural Economic Development in the United States: An evaluation of the U.S. Department of Agriculture's Business and Industry Guaranteed Loan Program," Economic Development Quarterly 23(3): 229-241.

Karaca, O. (2012), "Finansal Gelişme ve Ekonomik Büyüme: Türkiye İçin Bir Nedensellik Analizi", BDDK Bankacılık ve Finansal Piyasalar Dergisi, Cilt 6, Sayı 2: 85-111.

Karahan, Ö., Yilgör, M., & Özekin, A. A. (2018). Türkiye'de Banka Kredilerindeki Genişleme ile Ekonomik Büyüme Arasındaki İlişki. Finans Politik & Ekonomik Yorumlar, 55(636), 25-36.

King, R.G. and Levine, R. (1993), "Finance and Growth: Schumpeter Might Be Right", The Quarterly Journal of Economics, Vol. 108, No. 3: 717-737.

Levine, R., Loayza, N. and Beck, T. (2000), "Financial Intermediation and Growth: Causality and Causes", Journal of Monetary Economics, 46: 31-77.

Levine, R. (1997), "Financial Development and Economic Growth: Views and Agenda", Journal of Economic Literature, Vol. XXXV: 668-726.

Levine, R. (2005). Finance and Growth: Theory and Evidence. Handbook of Economic Growth, 1, 865-934.

Lucas, R.E. (1988), "On the Mechanics of Economic Development", Journal of Monetary Economics, 22(1): 3-42.

McKinnon, R.I. (1973), Money and Capital in Economic Development, Washington, DC: Brookings Institution.

Mercan, M. (2013), "Kredi Hacmindeki Değişimlerin Ekonomik Büyümeye Etkisi: Türkiye Ekonomisi İçin Sınır Testi Yaklaşımı", TBB Bankacılar Dergisi, 84: 54-71.

Mishra, A, Moss, C., and Erickson, K. (2008) "The Role of Credit Constraints and Government Subsidies in Farmland Valuations in the US: An Options Pricing Model Approach" Empirical Economics 34(2): 285-97

Narayan, P.K., and Narayan, S. (2013), "The Short-Run Relationship between the Financial System and Economic Growth: New Evidence from Regional Panels", International Review of Financial Analysis, 29: 70-78.

Özcan, B. ve Arı, A. (2011), "Finansal Gelişme ve Ekonomik Büyüme Arasındaki İlişkinin Ampirik Bir Analizi: Türkiye Örneği", Business and Economics Research Journal, Vol 2: 121142.

Robinson, J. (1952), The Generalization of the General Theory, In The Rate of Interest and Other Essays, London: Macmillan Press.

Roubini, N. and Sala-i-Martin, X. (1992), "Financial Repression and Economic Growth", Journal of Development Economics, 39: 5-30.

Shan, J., Morris, A. and Sun, F. (2001), "Financial Development and Economic Growth: An Egg-Chicken Problem?", Review of International Economics, 9: 443-454.

Thornton, J. (1994). Financial Deepening and Economic Growth: Evidence from Asian Economies. Savings and Development, 41-51.

Xu, Z. (2000). Financial Development, Investment, and Economic Growth. Economic Inquiry, 38(2), 331-344.

PART III.

CHAP 5.

ANALYSIS OF THE FACTORS THAT AFFECT CHILD DEATHS IN SUSTAINABLE DEVELOPMENT: TURKEY CASE

*Dr. Mehmet Vahit EREN**

Introduction

The sustainable development process that aims both to leave a healthier and more livable environment for the next generations and to meet the needs of the current generation has been one of the primary issues of the research objects during the recent years. It is mentioned that this process is a people-oriented concept that targets to increase the life quality and enables people to benefit from the opportunities of nature. There can be seen an advancement in the health status and the welfare level of the societies whose industrialization level increases. Within this concept, the health status of a society is accepted as a result of the socio-economic developments. Following issues are aimed; being conducted policies to reduce the disease and mortality rate by the developed countries; increasing the health status to the level of developed countries. Health promotion will directly affect the economic growth by increasing the labor productivity as a factor of production.

Distribution of the benefits in the development process is as important as the improvements in the health status for achieving the goals of the sustainable development. Average life expectancy, mortality rate and the enhancements in the educational indicators show how the benefits obtained from the sustainable development process are distributed. Two of the important indicators that are used to evaluate the life quality are as follows; the average life of the citizens and the quality of the healthy environment that is provided for the citizens. Except the indicator being talked about, infant and under five mortality rate also inform about the health status of a country (Çelik, 2013:166; Lorcu & Bolat, 2009:124). Accordingly, it can be mentioned that infant and under five mortality are the essential socio-economic development indicators.

With reference to the World Health Organization (WHO) data, 830 women die per day because of the ailments that emerge during the pregnancy and childbirth in 2015. The number of mothers who died in 100,000 live birth was 216 in 2015. Reducing the number of mothers who died 100,000 in live birth to 70 is one of the 2030 Sustainable Development Goals of the

* Kilis 7 Aralık University, Faculty of Economics and Administrative Sciences Department of Economics mvahiteren@gmail.com

United Nations Development Programme (UNDP). There is a need for decreasing this ratio by 7.5% per year to reach the goal mentioned. In 2015, the global under five mortality rate is lower by 44% in comparison with the same ratio in 2000. This number was expressed as 43 for 1,000 live births; the newborn mortality rate was 19 in 1,000 live birth and also lower by 37% in comparison with 2000. WHO Africa region has under five mortality rate that is almost two times more (81.3 per 1,000 live birth) of the global ratio. Another item of 2030 Sustainable Development Goals is to reduce the number of infant mortality rate for 1,000 live births to 12; to reduce the number of under five mortality rate in 1,000 live births to 25. The World Bank data pointed out that under five mortality rates were 12.7 per 1,000 live births in Turkey in 2016. This number confirms that 2030 Sustainable Development Goal was achieved.

From this point of view, the purpose of our research is to analyze the factors that affect the child deaths as a health indicator by the time series method specific to Turkey. The data belong to Turkey covers 1975-2016 period based on the data existence so as to be in the annual frequency. Following variables were used for analysis of the research; the number of the children (under five) who died in 1,000 live birth, income per capita, inflation rate, health expenses' share from the domestic income, population growth rate and fertility rate. It is mentioned in the previous studies on this subject; then, the relationships between the variables are analyzed. It is thought that the findings are going to contribute to the literature and the policymakers.

Literature

Since under five mortality rates include one year and below, the surveys that research the relationships between baby deaths and socioeconomic variables are used in the literature review. Hard evidence are found that prove a negative relationship between income and infant-child mortality rates. Following studies consider a specific country group determined the negative relationship between child deaths and the income; O'Hare, Makuta, Chiwaula, and Bar-Zeev (2013); Asiedu, Gaekwad, Nanivazo, Nkusu, and Jin (2015), Perez-Moreno; Blanco-Arana, and Barcena-Martin (2016); Houweling, Kunst, Looman, and Mackenbach (2005), Tüylüoğlu and Tekin (2009), Şahbudak and Şahin (2015). Following studies consider the same issue just on a country basis; Bhalotra (2008); Kaberuka, Mugarura, Tindyebwa, and Bishop (2017); Xu, Zhang, Yang, Zou, and Zhao (2014); Samadi, Keshtkaran, Kavosi, and Vahedi (2013). Rezaei, Moradi, and Matin (2015); Rezaei, Jamshidi, and Moradi (2015); Birchenall (2007); Zakir and Wunnava (1999) research the same relationship based on the country group and determine the negative relationships. Also, Lin (2006), Arik and Arik (2018) find negative relationships between the same variables based on just a single country. Lorcu and Bolat (2009), Çukur and Bekmez (2011), Pritchett and Summers (1996) research both infant and child mortality rates and find a negative relationship between income and the mortality rates.

Çevik (2013) and Yılmaz and Akdede (2016) investigate the effect of health expenses on the child deaths and reveal a negative relationship between health expenses and the child deaths. They also mention that health expenses have a reduced effect on the child deaths. Volpe, Abrantes, Capanema, and Chaves (2009); Çoban (2009); Chan, Ng, and Van (2009); Kim and Lane (2013); Issa and Ouattara (2005); Li, Feng, Wang, Qian, and Gu (2017) survey the relationship between health spendings and the infant deaths. They point out that health expenses need to be at higher levels to decrease the infant mortality rates. Novignon and Lawanson (2017) research both the infant and child mortality rates; they obtain findings that show a negative relationship between health expenses and the mortality rates. Makhlouf, Kellard, and Vinogradov (2017) conduct studies on the effect of the inflation on the child deaths; Bourne et al., (2014) research the effect of the inflation on the child deaths; Lee, Lee, Lim, and Park (2016); Akinlo and Odusanya (2016) survey the effect of the inflation on both child and infant death rates. Both of them find that the inflation increase multiplies the mortality rates. Fabella (2008) research the relationship between population growth for low-income countries and low-middle income countries and the infant deaths. With reference to their findings, inflation increase triggers the infant deaths. The findings of the above studies are obtained from the estimations that are performed by the least squares method.

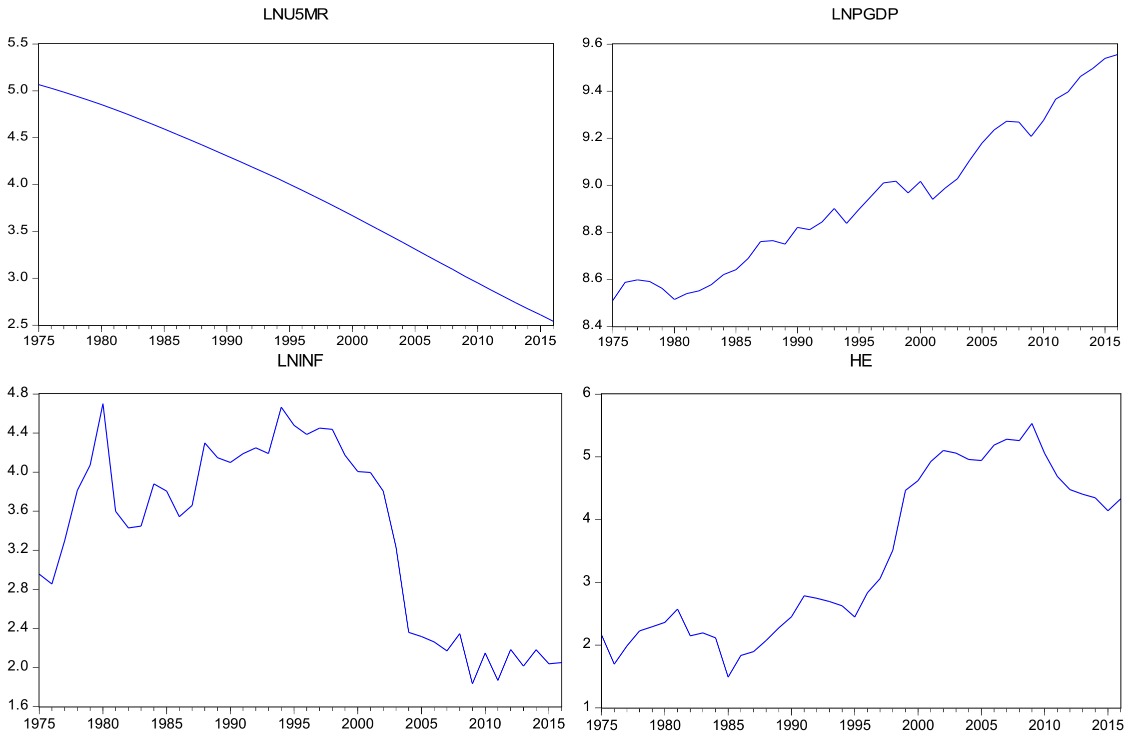
Amiri and Gerdtham (2013) perform a study to analyze the relationship between income per capita and child deaths for 180 countries by the data belong to 1990-2010. They find a bidirectional causality in 105 of the countries; unidirectional causality from child deaths to the income in 49 countries; a causality from income to the child deaths in 14 countries. Weatley (2015) conducts a research in low-income countries by the data of 2011. According to the research findings, the increase in birth rates causes an increase in the child death rates. Mohapatra (2017) tests the relationship between health expenses with the national income and the infant mortality rates with the help of the causality test. He specifies an unidirectional causality from the health expenses and domestic income to the infant deaths in the long term. Another survey is performed by Asumadu-Sarkodie and Owusu (2016) in Ghana by the data of 1971-2013. They points out that while there is a positive relationship between child death rates with the inflation and the fertility, there is a negative relationship between the domestic income and the household consumption expenditures. Moreover, they consider the causality test and reveal that there is an unidirectional causality from the child deaths to the inflation and the fertility. Holyachi and Kengnal (2017) use the data of 1995-2013 to analyze the relationship between infant death rate, health expenditures and the economic growth for India. With reference to the findings of their study, there is the cointegration relationship between the variables. Additionally, while there is no causality relationship in the short term, a causality relationship can be seen in the long term.

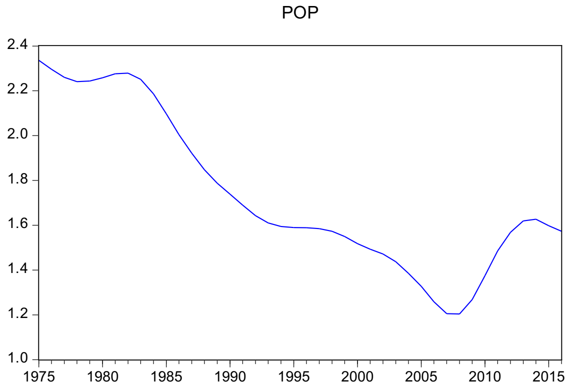
To sum up the literature, it is observed that the increase in the income and the health expenditures decrease the infant and child death rates; the increase in the population and fertility increase the infant and child deaths. A great majority of the studies are performed by Least Square Method (LSM). Moreover, there are few studies conducted on the child deaths via cointegration and causality tests. These two issues above constitute the starting point of this research.

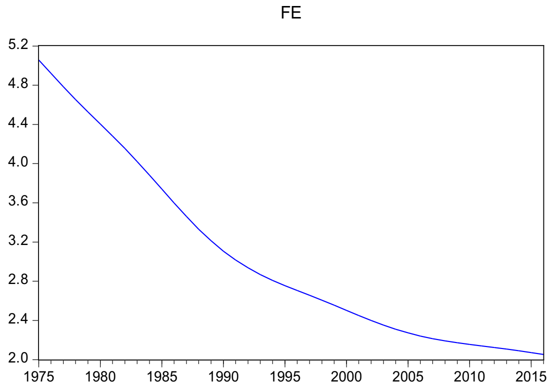
Data, Model and Method

The data belong to 1975-2016 period are considered to analyze the factors that determine the child deaths in Turkey. For the analysis mentioned, (LU5MR) represents the number of five aged and below children died in 1.000 live births; (LPGDP) represents the real income per capita that is computed by 2010 prices; (LINF) represents the inflation rate; (HE) shows the share of health expenses from the domestic income; (POP) shows the population growth rate; (FE) represents the fertility rate. The variables that have 'L' inscription are included in the model by turning into a logarithmic form. The share of health expenses from the domestic income (HE) is obtained from the Health Statistics; other variables are received from the database of the World Bank. Figure 1 shows the graphics belong to the variables. It is seen that LNPGDP and HE variables are positively sloped; other variables are negatively sloped.

Figure 1. Graphs Belong to Variables







The number of under five who died in 1.000 live births is accepted as the dependent variable on behalf of the health status. The model is established by accepting the other variables as the independent variable;

$$LU5MR_t = \beta_0 + \beta_1 LPGDP_t + \beta_2 HE_t + \beta_3 LINF_t + \beta_4 POP_t + \beta_5 FE_t + \varepsilon_t \quad (1)$$

The relationships between the variables are tried to be explained by using unit root and causality tests. The stability of the series is tested in the first stage of the analysis; (Augmented Dickey-Fuller) and PP (Phillips-Perron) unit root tests are utilized and the order of stationarity is determined. Since the ADF and PP unit root tests do not consider the structural breakages, Zivot-Andrews unit root test that considers just a single breakage is conducted. In the second stage, the causality test is applied and also the Toda-Yamamoto Granger causality test is utilized within the framework.

Analysis Findings

There is the need for appealing to some of the unit root tests to estimate the presence and the direction of the relationships between the variables. At this point, augmented Dickey-Fuller (1981) and Phillips and Perron (1988) unit root tests that are frequently used in economics are utilized.

Table 1. ADF Unit Root Test Results

		Variables	ADF		ADF		ADF
Level	Constant	LU5MR	-2.04(2) [0.2669]	First Differences	-1.46(5) [0.5397]	Second Differences	-0.65(4) [0.8455]
		LPGDP	0.71(0) [0.9910]		-6.20(0) [0.0000]*		-
		LINF	-0.82(0) [0.8005]		-6.23(0) [0.0000]*		-
		HE	-1.80(8) [0.3713]		-1.39(6) [0.5738]		-4.86(5) [0.0004]*
		POP	-2.19(10) [0.2111]		0.21(9) [0.9694]		-1.61(10) [0.4636]
		FE	-4.75(10) [0.0006]*		-		-
	Constant+Trend	LU5MR	-2.78(6) [0.2102]		-0.20(1) [0.9972]		-10.65(0) [0.0000]*
		LPGDP	-5.26(5) [0.0007]*		-		-
		LINF	-2.13(0) [0.5109]		-6.51(0) [0.0000]*		-
		HE	-2.47(8) [0.3393]		-1.29(6) [0.8733]		-5.12(5) [0.0011]*
		POP	0.07(10) [0.9955]		-1.68(9) [0.7347]		-5.29(8) [0.0008]*
		FE	-4.81(10) [0.0028]*		-		-

Note: *, ** and *** values respectively show the stationarity of the series at 1%, 5% and 10% significance levels. Bracketed values show the optimal lag lengths for ADF based on the Akaike statistics information criteria. Dickey-Fuller test is considered in case of being the lag length zero. The values in square brackets show the probability values.

Table 1 shows the ADF unit root test results. With reference to the results obtained, while LU5MR and POP variables are not steady in the constant model even though their second difference is taken, they are steady in the constant model with trend if their second difference is taken. LPGDP variable has no unit root at the level value in both the first difference in the constant model and the constant model with trend. LINF series becomes steady when its first difference is taken in both the constant model and the model with the trend. HE series becomes stationary when its second difference is taken in both the constant model and the model with the trend. FE variable is steady at the level value in both the constant model and the model with trend.

Table 2. PP Unit Root Test Results

	Variables	PP	PP	PP
		Level	First Differences	Second Differences
Constant	LU5MR	5.40(5) [0.1000]	-3.22(3) [0.0256]**	-7.84(4) [0.0000]*
Constant	LPGDP	0.80(3) [0.9930]	-6.20(0) [0.0000]*	-
Constant	LINF	-0.84(1) [0.3610]	-6.23(3) [0.0000]*	-
Constant	HE	-1.01(4) [0.7405]	-5.41(4) [0.0001]*	-
Constant	POP	-1.67(4) [0.4337]	-2.19(2) [0.2100]	-2.83(2) [0.0623]***
Constant	FE	-7.39(5) [0.0000]*	-	-
Constant +Trend	LU5MR	-5.09(4) [0.0009]*	-0.96(2) [0.9379]	-10.79(2) [0.0000]*
Constant +Trend	LPGDP	-2.10(1) [0.5258]	-6.53(3) [0.0000]*	-
Constant +Trend	LINF	-2.10(4) [0.5296]	-6.52(5) [0.0000]*	-
Constant +Trend	HE	-1.67(4) [0.7445]	-5.41(4) [0.0004]*	-
Constant +Trend	POP	-0.64(4) [0.9707]	-2.30(2) [0.4233]	-2.81(2) [0.2017]
Constant +Trend	FE	-0.87(5) [0.9493]	-1.80(4) [0.6823]	-2.18(4) [0.4827]

Not: *, ** and *** values respectively show the stationarity at 1%, 5% and 10% significance levels. Bracketed values represent the optimal lag length for PP based on kernel method "Barlettkernel" and bandwidth as "Newey West bandwidth" method. The values in square brackets show the probability values.

As is seen in PP unit root test results in Table 2, LU5MR variable becomes stationary when its first and second difference is taken in the constant model; again, the same variables becomes stationary when its level and the second difference is taken in the constant model with trend. LPGDP series becomes stationary when its first difference is taken in both the constant model with trend. LINF series is stationary when its first difference is taken in both the constant model and the constant model with trend. HE variable has no unit root when its first difference is taken in both the constant model and the constant model with trend. While POP variable is not stationary even if its second difference is taken in the constant model with trend, the same variable is stationary when its second difference is taken in the constant model. While FE variable is stationary at the level value in the constant model, it has no unit root problem even if its second difference is taken in the constant model with trend.

To sum up the unit root test results, LU5MR and POP variables are stationary if the probability value is accepted as the closest values to 1% significance level; LPGDP, LINF, and HE variables are stationary at I(1) level if the probability value is accepted as the closest values to 1% significance level. Finally, the FE variable is stationary at I(0) level if the probability value is accepted as the closest values to 1%. Since ADF and PP variables do not consider the structural breakages, Zivot-Andrews unit root test that allows for just a single structural breakage was applied.

Table 3. Zivot-Andrews Unit Root Test Results

	Model A		Model C	
Variables	Min. T stat.	Breaking Date	Min. T stat.	Breaking Date
LU5MR	-2.65	1985	-3.73	1991
LPGDP	-3.02	2010	-3.46	2001
LINF	-4.58***	2003	-3.87	2003
HE	-3.25	1996	-2.52	2010
POP	-2.26	2007	-2.98	2007
FE	-4.78***	2000	-	-

Note: *, ** and *** values respectively show the structural breakages and stationarity of the series at 1%, 5% and 10% significance levels. Critical values for 1%, 5% and 10% for Model A respectively are-5.34, -4.93 and -4.58; critical values for 1%, 5% and 10% for Model C respectively are -5.57, -5.08 and -4.82.

Table 3 shows the unit root test results allow a single structural breakage. According to the test results, Model C's main hypothesis called 'the series has a unit root' is not rejected for all of the variables. In Model A, the main hypothesis is rejected for just LINF and FE variables. In other saying, LINF and FE variables are stationary with the structural breakage. Other variables have the unit root.

This research accepted the maximum lag length as 4; the delay count was specified as 4 based on Akaike information criteria. Then, LM test was applied to research whether there was an autocorrelation problem. Test result also confirmed that there was no autocorrelation problem.

Table 4. Determining the Delay Count

p	AIC	SC	LM Statistics	Probability Value
1	-23.79189	-21.98193	44.40507	0.1587*
2	-29.46322	-26.10186	27.80652	0.8340*
3	-32.73960	-27.82684	51.35700	0.0466**
4	-35.82435*	-29.36020*	38.66742	0.3501*

Note: *, ** and *** values respectively represent the significance at 1%, 5% and 10%.
These values also show that the main hypothesis which mentions that there is no autocorrelation problem.

Toda-Yamamoto Granger causality test that surveys the causality relationships between the variables was applied in case of being the variables stationary at the same level.

Table 5. Toda-Yamamoto Granger Causality Test Results

Hypothesis	Delay Count $k + d_{\max}$	X2 Statistics
LU5MR≠> LPGDP	6	11.80 (0.0665)***
LPGDP ≠> LU5MR	6	3.97 (0.6798)
LU5MR ≠> LINF	6	4.14 (0.6569)
LINF ≠> U5MR	6	13.41 (0.0369)**
LU5MR ≠> HE	6	10.29 (0.1127)
HE ≠> LU5MR	6	3.40 (0.7563)
LU5MR ≠> POP	6	40.77 (0.0000)*
POP ≠> LU5MR	6	8.26 (0.2195)
LU5MR ≠> FE	6	0.70 (0.9943)
FE ≠> LU5MR	6	17.67 (0.0071)*

Note: *, ** and *** values show the causality relationship between the variables at 1%, 5% and 10% significance levels. $k + d_{\max}$ values represent the total od stationarity levels of the series and the delay counts that were selected based on AIC criteria. Bracketed values show the probability values that were asymptotically distributed.

According to the Toda-Yamamoto Granger causality test results, there is a one-way causality relationship from five aged and below children deaths to the income per capita and the population variable. Moreover, Table 5 confirms that there is a one-way causality relationship from the fertility rate and inflation rate to the five aged and below child deaths.

Conclusion

This research analyzes the factors that determine the number of under five who died in 1,000 live births as an indicator of the health status. Inflation, health expenses, population growth and fertility rates are used for the analysis; the relationships between these variables and the child deaths are tried to be determined. Income is one of the most important factors that directly and indirectly affect the individual and public health. The share for the health system will be higher in societies whose income level is high. As the health expenses increase, the labor productivity will be higher and its contribution to the production will be higher as well. Accordingly, it is expected that the child deaths will be lower in countries whose income level and health expenses are high. Purchasing power gets lost in countries where the inflation is a problem; therefore, several problems such as impoverishment, undernourishment, lack of benefiting from hygiene and health facilities. These problems can affect the maternal health. Population growth based upon increasing the number of people who have a child in an early age and also increasing the fertility rates negatively affect the child deaths.

The annual data belong to the 1975-2016 period in Turkey are used in this research. In the first stage, stationarity analyses of variables are actualized by ADF and PP tests; it is pointed out that the variables are stationary at different levels. Causality test is conducted in the second stage. There is a one-way causality relationship from under five deaths to the per capita income and the population variables. Also, a one-way causality relationship from fertility and inflation rate to the five aged and below child deaths is determined.

According to the result of this survey, the variables except for the health expenses' share from the domestic income interact with the child deaths. Literature has few studies on the child deaths via cointegration and causality tests. This makes us think that this study constitutes and originality.

With reference to our research, health policymakers should target to reduce the child deaths by determining the variables that have an effect on the under five deaths. Much as 2030 Sustainable Development goals have been attained in child deaths, the necessity for raising healthier individuals have not been eliminated as of yet. Within this scope 'school of pregnancy' where information on actions to be taken before and after the pregnancy should be generalized; especially the big sized furniture need to be fixed for keeping the children from the home accidents. Moreover, the population at the poverty live should be minimized; the accessibility to the basic health services should be easy and speedy. The return of the investments in the health is long reaching. This is because Turkey needs to conduct long termed and sustainable policies in health and economy area. It is emphasized that a healthier environment should be provided for the next generations. Therefore, the policy makers play a significant role.

The period, variables, country and the country group that was discussed in this research were different. Also, different econometric methods were used. This research can differ from other studies by these aspects. Furthermore, this research remained limited by 42 observations. Lack of more data about the variables is the root cause of this limitation. Being variables stationary at different levels show that the presupposition called ‘the variables need to be stationary at the same level for performing a cointegration test’ is rejected. This is because the cointegration test and coefficient estimation could not be performed. Just because of this reason, our research is conducted under the limit.

The presence of other social factors that affect the number of under five deaths in 1,000 live births needs to be considered as an indicator of the health status. In addition to that, genetics and cultural factors such as the educational background of the parents, number of nurses and midwives, number of beds in a hospital, harmful habits (cigarette, alcohol, drugs) can be aligned. It is estimated that this study will be able to lay the groundwork for the next studies by reason of being possible to conduct studies which include such variables.

References

Akinlo, A. E. & Odusanya, I. A. (2016). Effects of Food Prices on Under-five and Infant Mortality Rates in Sub-Saharan Africa. African Journal of Economic Review, IV(1), 101-112.

Amiri, A. & Gerdtham, U. (2013). Impact of Maternal and Child Health on Economic Growth: New Evidence Based Granger Causality and DEA Analysis. http://www.who.int/pmnch/topics/part_publications/201303_Econ_benefits_econometric_study.pdf (05.06.2018).

Arik, H. & Arik, M. (2018). Is It Economic Growth or Socioeconomic Development? A Crosssectional Analysis of the Determinants of Infant Mortality. The Journal of Developing Areas, 42(2), 31-55.

Asiedu, E., Gaekwad, N. B., Nanivazo, M., Nkusu, M. & Jin, Y. (2015). On the Impact of Income per Capita on Health Outcomes: Is Africa Different?. https://www.afdb.org/uploads/tx_llafdbpapers/Impact_of_Income_per_Capita_on_Health_Outcomes_Is_Africa_Different.pdf (05.06.2018).

Asumadu-Sarkodie, S.l and Owusu, P. A. (2016). The Casual Nexus between Child Mortality Rate, Fertility Rate, Gdp, Household Final Consumption Expenditure, and Food Production Index. Cogent Economics & Finance (2016), 4: 1191985, pp.1-15.

Bhalotra, S. (2008). Childhood Mortality and Economic Growth. Forthcoming in Mark McGillivray (ed.) Millennium Development Goals: Assessing and Forecasting Progress, Palgrave-McMillan.

Birchenall, J. A. (2007). Economic Development and the Escape from High Mortality. World Development, 35(4), 543–568,

Bourne, P.A., Sharpe-Pryce, C., Francis, C., Solan, I., Hudson-Davis, A., Campbell-Smith, J. & Watson-Coleman, O. (2014). Mortality and Inflation: A 21-Year Analysis of Data on Jamaica. Journal General Practice 2(3), 1-8.

Chan, M. F., Ng, W. I. & Van, I. K. (2009). Socioeconomic Instability and the Availability of Health Resources: Their Effects on Infant Mortality Rates in Macau from 1957–2006. Journal of Clinical Nursing 19, 884–891.

Çelik, Y. (2013). Sağlık Ekonomisi. Gözden Geçirilmiş 2. Baskı, Siyasal Kitabevi, Ankara.

Çevik, S. (2013). Kamu Sağlık Harcamalarının Sağlık Sonuçları Üzerindeki Etkisi: Ülkelerin Gelir Seviyelerine Göre Bir Karşılaştırma. İ.Ü. Siyasal Bilgiler Fakültesi Dergisi, (48), 113-133.

Çoban, H. (2009). Sağlık Ekonomisi ve Türkiye'de Sağlık Hizmetlerinin Yeniden Yapılandırılması, Doktora Tezi, Dokuz Eylül Üniversitesi Sosyal Bilimler Enstitüsü Maliye Anabilim Dalı, İzmir.

Çukur, A. ve Bekmez, S. (2011). Türkiye'de Gelir, Gelir Eşitsizliği Ve Sağlık İlişkisi: Panel Veri Analizi Bulguları. Gaziantep Üniversitesi Sosyal Bilimler Dergisi, 10(1), 21-40.

Dickey, D. A. & Fuller, W. A. (1981). Likelihood Ratio statistics For Autoregressive Time Series with A Unit Root. Econometrica, 49(4), 1057-1072.

Erdoğan, E., Ener, M. & Arıca, F. (2013). The Strategic Role of Infant Mortality in the Process of Economic Growth: An Application for High Income OECD Countries. Procedia - Social and Behavioral Sciences 99, 19 – 25.

Fabella, C. (2008). Population Growth and Infant Mortality. Discussion paper, School of Economics, University of the Philippines, No. 2008, 10, Quezon.

Holyachi, S. & Kengnal, P. R. (2017). The Causal Relationship Between Infant Mortality Rate, Health Expenditure And Economic Growth In India. International Journal of Public Health Research, 7(1), 799-806.

Houweling, T. A. J., Kunst, A. E., Looman, C. W. N. & Mackenbach, J. P. (2005). Determinants of Under-5 Mortality among the Poor and the Rich: a Cross-National Analysis of 43 Developing Countries, International Journal of Epidemiology 34, 1257-1265.

Issa, H. & Ouattara, B. (2005). The Effect of Private and Public Health Expenditure on Infant Mortality Rates: Does the Level of Development Matters?. http://citeseerx.ist.psu.edu/viewdoc/ download?doi=10.1.1.63.9133&rep=rep1&type=pdf (07.06.2018).

Kaberuka, W., Mugarura, A., Tindyebwa, J. & Bishop, D. S. (2017). Factors Determining Child Mortality in Uganda. International Journal of Social Economics, 44(5), 633-642.

Kim, T. K. & Lane, S. R. (2013). Government Health Expenditure and Public Health Outcomes: A Comparative Study among 17 Countries and Implications for US Health Care Reform. American International Journal of Contemporary Research, 3(9), 8-13.

Lee, H. H., Lee, S. A., Lim, J.Y. & Park, C. Y. (2016). Effects of Food Price Inflation on Infant and Child Mortality in Developing Countries. The European Journal of Health Economics 17(5), 535–551.

Li, H., Feng, H., Wang, J., Qian, Z. & Gu, J. (2017). Relationships among Gross Domestic Product Per Capita, Government Health Expenditure Per Capita and Infant Mortality Rate in China. Biomedical Research, 28(6), 2859-2864.

Lin, S.J. (2006). The effects of economic instability on infant, neonatal, and postneonatal mortality rates: Evidence from Taiwan. Social Science & Medicine 62, 2137–2150.

Lorcu, F. & Bolat, B. A. (2009). Yaşlara Göre Ölüm Oranları ile Sosyo-Ekonomik Göstergeler Arasındaki İlişkinin İncelenmesi. İstanbul Üniversitesi İşletme Fakültesi Dergisi, 38(2), 124-133.

Makhlouf, Y., Kellard, N. M. & Vinogradov, D. (2017). Child Mortality, Commodity Price Volatility and the Resource Curse, Social Science & Medicine, 178, 144-156.

Mohammed, E. S. E. (2018). Health and Economic Growth in Sudan: Cointegration and Granger Causality Analysis (1969-2015). https://www.researchgate.net/profile/Elwasila_Mohamed2/publication/322989224_Health_and_Economic_Growth_in_Sudan_Cointegration_and_Granger_Causality_Analysis_1970-2015/links/5a7b1f60aca2728c2d404d2b/Health-and-Economic-Growth-in-Sudan-Cointegration-and-Granger-Causality-Analysis-1970-2015.pdf (05.06.2018).

Mohapatra, S. (2017). Economic Growth, Public Expenditure on Health and IMR in India. International Journal of Social Economics, 44 (12), 2002-2018.

Novignon, J & Lawanson, A. O. (2017). Health Expenditure and Child Health Outcomes in Sub-Saharan Africa. African Review of Economics and Finance, 9(1), 96-121.

OECD (2017). Health Statistics 2017- Frequently Requested Data. oecd.org (20.05.2018).

O'Hare, B., Makuta, I., Chiwaula, L. & Bar-Zeev, N. (2013). Income and Child Mortality in Developing Countries: A Systematic Review and Meta-Analysis. Journal of the Royal Society of Medicine; 106(10) 408–414.

Perez-Moreno, S., Blanco-Arana, M. & Barcena-Martin, E. (2016). Economic Cycles and Child Mortality: A Cross-National Study of the Least Developed Countries. Economics and Human Biology 22, 14–23.

Phillips, P. C.B. & Perron, P. (1988). Testing for A Unit Root in time Series Regression. Biometrika, 75(2), 335-346.

Pritchett, L. & Summers, L. H. (1996). Wealthier is Healthier. The Journal of Human Resources, 31(4), 841-868.

Rezaei, S., Jamshidi, K. & Moradi, K. (2015b). Impact of Socioeconomic and Health System Factors on Infant Mortality Rate in Organization of the Petroleum Exporting Countries (OPEC): Evidence from 2004 to 2013. International Journal Pediatrics, 3(2-2), 493-499.

Rezaei, S., Moradi, K. & Matin, B. K. (2015a). Macro Determinants of Infant Mortality in ECO Countries: Evidence from Panel Data Analysis. International Journal Pediatrics, 3(1-2), 441-447.

Samadi, A. H., Keshtkaran, A., Kavosi, Z. & Vahedi, S. (2013). The Effect of Fiscal Decentralization on Under-five Mortality in Iran: A Panel Data Analysis, International Journal of Health Policy and Management, 1(4), 301–306.

Şahbudak, E. & Şahin, D. (2015). Sağlık ve Ekonomik Büyüme Arasındaki İlişkinin Analizi: BRIC Ülkeleri Üzerine Bir Panel Regresyon Analizi. İşletme ve İktisat Çalışmaları Dergisi, 3(4), 154-160.

Toda, H. Y. & Yamamoto, T. (1995). Statistical Inferences In Vector Autoregressions With Possibly Integrated Processes. Journal of Econometrics, 66(1-2), 225-250.

Tüylüoğlu, Ş. & Tekin, M. (2009). Gelir Düzeyi ve Sağlık Harcamalarının Beklenen Yaşam Süresi ve Bebek Ölüm Oranı Üzerindeki Etkileri. Çukurova Üniversitesi İİBF Dergisi, 13(1), 1-31.

UNDP (2018). Goal 3 Targets, http://www.undp.org/content/undp/en/home/sustainable-development-goals/goal-3-good-health-and-well-being/targets/ (25.06.2018).

Volpe, F. M., Abrantes, M. M., Capanema, F. D. & Chaves, J. G. (2009). The Impact of changing Health Indicators on Infant Mortality Rates in Brazil, 2000 and 2005. Revista Panamericana de Salud Publica. 26(6), 478–484.

Wheatley, L. (2015). Factors Affecting Child Mortality. Honors Theses, pp.1-21, https://scholar.utc.edu/cgi/viewcontent.cgi?article=1026&context=honors-theses (27.06.2018).

WHO (2017). Status of The Health-Related SDGs. in World Health Statistics 2017: Monitoring Health for The SDGs, pp.29-35, http://www.who.int/gho/publications/world_health_statistics/2017/EN_WHS2017_Part2.pdf?ua=1 (25.06.2018).

World Bank (2018). World Development Indicators. http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators (20.05.2018).

Xu, Y., Zhang, W., Yang, R., Zou, C. & Zhao, Z. (2014). Infant Mortality and Life Expectancy in China. Medical Science Monitor 20, 379-385.

Yılmaz, G. S. & Akdede, S. H. (2016). Kamu Sağlık Harcamalarının Etkililiği: Panel Veri Analizi. Adnan Menderes Üniversitesi, Sosyal Bilimler Enstitüsü Dergisi, 3(2), 85-110.

Zakir, M. & Wunnava, P. V. (1999). Factors Affecting Infant Mortality Rates: Evidence from Cross-Sectional Data. Applied Economics Letters, 6(5), 271-273.

Zivot, A. & Andrews, D. W. K. (1992). Further Evidence on the Great Crash, the Oil-Price Shock, and the Unit-Root Hypothesis. Journal of Business & Economic Statistics, 10(3), 251-270.

PART IV

MONETARY ECONOMICS

PART IV.
CHAP 1.
CHANGING ROLES OF CENTRAL BANKING AFTER THE GLOBAL FINANCIAL CRISIS

Dr. Onur POLAT[*]

Introduction

In addition to their principal mission of providing and sustaining price stability, central banks have an important role in financial stability thanks to their lender of last resort and generating liquidity power roles. However; the ability of generating liquidity and lender of last resort power of central banks may worsen conditions in financial system if they lend to insolvent firms. Therefore; central banks should provide liquidity to good collaterals that satisfy a penalty rate in order to reallocate resources efficiently and consequently to restore financial stability.

Regarding to their role in financial stability, central banks had focused on implementing conventional policy rules such as Tinbergen's policy assignment rule or Jackson Hole Consensus before the great recession of 2008 and European Sovereign debt crisis (Eurozone crisis). However; inability of restoring financial stability during financial turmoil periods rapidly with these conventional policy tools led to central banks to seek unconventional policy tools. Hereby, central banks have performed new policy tools after the great recession in order to restore financial stability (e.g., quantitative easing (QE) of FED, asymmetric interest rate corridor of Central Bank of Republic of Turkey). In addition, central banks gauge and monitor systemic risk in financial system with high frequency or low frequency financial stress indexes in order to determine early warning symptoms of financial instability states.

On the other hand, macro prudential authorities and central banks face to some challenges while carrying out policy tools in terms of financial stability. For example; the ECB doesn't have power over its member countries' fiscal policies in contrast to FED which may prevent financial stability across all EU area. Along with that, conflicting goals among parties or limited power of central banks may avoid ensuring financial stability.

On account of all these explained reasons and with the awareness that the financial stability is a public good, the challenges on central banks' mission of providing and sustaining financial stability and changing roles of central banks in concern with financial stability after the great recession are discussed in this chapter.

* *onurpolat@hacettepe.edu.tr*

The chapter begins with a review of definition of financial stability and conventional policy tools of central banks referring to financial stability prior to 2008 global financial crisis. Then; as a non-conventional policy tool of central banks, financial stress indexes by which systemic stress of financial system is identified and measured, given. Subsequently; the obstacles, challenges of central banks in providing financial stability are discussed. Finally, the chapter ends with a debate of lessons from GFC and the European Sovereign debt crisis (Eurozone crisis) and it proposes policy implications.

Definition of Financial (In)Stability and Central Banks' Conventional Roles in Financial Stability

Financial stability has been analyzed by vast amount of studies under the guidance of central banks' researchers and scholars mostly, yet there is no common accepted definition on the term. Nevertheless, the stylized facts concerning to financial stability/instability have been discussed and described over the near past. Among them, a body of literature focus on the term's counter correspondence "financial instability" (Bernanke and Gertler, 1990; Wolfson, 1990; Minsky, 1992; Crockett, 1996; Wyplosz, 1998; Mishkin, 1999; Bernanke and Gertler, 2000; Vercelli, 2000; Chant, 2003; Edwards, 2003; Ferguson, 2003; Allen and Wood, 2006; Iqbal et al., 2010). The stylized facts of these studies can be described as follows: Deficit in investment of economy, weaknesses of balance sheets, fluctuations in the price of financial assets, increase in uncertainty, increase in interest rates, moral hazard and adverse selection in financial markets, rise in volatility, liquidity problems, propagation of international business cycles, booms and boosts in asset prices.

Another strand of studies prefer identifying the term more directly (Crockett, 1997; Schinasi, 2004; Haldane et al., 2005; Allen and Wood, 2006; Rosengren, 2011; Norges Bank, 2015; Bank of England, 2018; Bank of Japan, 2018; Deutsche Bundesbank - Eurosystem, 2018; Swiss National Bank, 2018). The stylized facts that reflect the term by these studies are: Stability of key institutions in financial system, efficient allocation of economic resources, smooth consumption of individuals across time, efficient financing of investment projects, observable state of affairs, well-functioning of financial intermediation, closeness of employment rate to its natural level, smooth functioning of the financial intermediation process, public trust and confidence in financial institutions, markets, infrastructure; proper functioning of financial system.

With regard to financial stability, central banks had conducted conventional policy tools such as Jackson Hole consensus or Tinbergen's policy assignment rule before the global financial crisis (GFC). However; these policy tools separate monetary policy and financial stability strictly and herewith financial stability could not be restored rapidly since they suggest "cleaning" rather than "leaning" against financial imbalances. For example; according to the view of Jackson Hole consensus, central banks should only focus on asset prices and financial instabilities in terms of short term inflation forecast. And, if financial imbalances still persisted, central banks should apply a mop up or cleaning strategy after the burst of the turmoil. This policy tool suggests price stability as the best strategy for central banks in order to provide financial stability (Praet, 2014). On the other hand, by the view of Tinbergen's policy assignment rule there should be at least one policy rule for each policy target. According to this rule, separate policy tools should be driven to conduct macro/micro prudential policies and financial stability.

Nonetheless; these conventional policy tools which suggest cleaning rather than leaning against financial imbalances may be too costly during financial bursts. For instance, the debate that links the causes of 2008 global financial crisis to ineffectiveness of these conventional policy tools has been still persisted. By these views, the impacts of financial crisis exacerbated due to "delaying the ultimate resolution of the problems, fostering moral hazard, and inappropriately exposing taxpayers to substantial risk" (Wall, 2012, p. 3). Insufficient resolution mechanism with these policy tools has led to central banks to seek unconventional policy tools and to set up new structures in terms of financial stability. For example, European Central Bank (ECB) set up financial supervisory structure during post GFC period. This structure includes three new European supervisory authorities (ESAs) for banking, insurance and securities markets which aim to strengthen micro prudential supervision and the European Systemic Risk Board (ESRB) responsible for macro prudential oversight (Praet, 2014). On the other hand, Central Bank of Republic of Turkey (CBRT) has launched asymmetric interest rate corridor since end of 2010 as an active policy tool. This unconventional policy tool has led CBRT to use multiple policy rate structure within an asymmetric and wide corridor.

Identifying and Monitoring Systemic Stress with Financial Stress Indexes

Central banks are responsible for identifying, monitoring and mitigating systemic risk in financial system. In this regard, they should gauge level of systemic stress regarding to financial system with high frequency (daily) or low frequency (weekly, monthly, quarterly or annually) financial stress indexes. Despite there is no widely common accepted methodology in developing financial stress indexes (FSIs), the empirical studies have measured risks and fragilities of financial system with FSIs which are constructed by indicators of financial markets (banking sector, debt, equity, money, foreign exchange, credit, derivative markets and financial intermediaries). The studies have developed indexes with application of different econometric methods (Principal Component Analysis, Equal Weight Method, Variance Equal Weight Method, Credit Equal Weight Method, Logit Method, Composite Indicator of Systemic Stress).

Some of these empirical studies have constructed high frequency financial stress indexes: Illing and Liu, 2006 (for Canada using credit equal weight (CEW) method); Holmfeldt et al, 2009 (for Switzerland using equal weight (EW) method); Islami and Kurz-Kim, 2014 (for Euro area using variance equal weight (VEW) method) and Oet et al., 2015 (for the US using credit equal weight (CEW) method).

On the other hand, low frequency financial stress index studies have suggested weekly (Nelson and Perli, 2007; Brave and Butters, 2011; Holló et al., 2012; Cerquera and Murcia, 2015; Kliesen and Smith, 2015), monthly (Balakrishnan et al., 2009; Hakkio and Keaton, 2009; Morales and Estrada, 2010, Cardarelli et al., 2011; Yiau et al., 2010; Cevik et al., 2013), quarterly (Sinenko et al., 2013; Arzamasov and Penikas, 2014; Eidenberger et al., 2014; Vermeulen et al., 2015) and yearly (Bordo et al., 2001; Hatzius et al., 2010) indexes.

A body of low frequency financial stress index studies have developed weekly indexes: Nelson and Perli, 2007 (for the US using logit method); Kliesen and Smith, 2010 (for the US using PCA), Brave and Butters, 2011 (for the US using principal component analysis (PCA) method); Holló et al., 2012 (for Euro area using Composite Indicator of Systemic Stress (CISS) method); Cerquera and Murcia, 2015 (for Spain using CISS method).

Some low frequency financial stress index studies have developed monthly financial stress indexes: Balakrishnan et al., 2009 (for 18 emerging countries using VEW method); Hakkio and Keaton, 2009 (for the US using PCA method); Morales and Estrada, 2010 (for Columbia using VEW method), Cardarelli et al., 2011 (for 17 developed countries using VEW method); Yiau et al., 2010 (for Hong Kong using VEW method); Cevik et al., 2013 (for Turkey using PCA method).

Another strand of low frequency financial stress index studies have developed quarterly indexes: Sinenko et al., 2013 (for Latvia using EW method); Arzamasov and Penikas, 2014 (for Israel using PCA method); Eidenberger et al., 2014 (for Australia using EW method); Vermeulen et al., 2015 (for 28 OECD countries using EW method).

Some other low frequency financial stress index studies have constructed annual indexes: Bordo et al., 2002 (for the US using median based VEW method) and Hatzius et al., 2010 (for the US using PCA method).

Policy Actions During Financial Crises and Challenges in Financial Stability

Central banks confront to some challenges and obstacles while providing and sustaining financial stability. For example, there is no fiscal authority in the EU area that has power on its member states' fiscal policies and this may becloud on ECB's mission regarding to financial stability. Likewise, FED also faces to some impediments owing to legal vacuum or cleaning against the wind (mop up after the burst). In this section, the events and the actions of FED, ECB and other central banks or authorities during GFC and Eurozone crisis are given in order to get lessons from these financial imbalance periods and to suggest policies in order to avoid financial instability states.

Policy Actions During GFC and Eurozone Crisis

Long before the GFC, the US had implemented some policies with an intention of reducing the lender of last resort intervention and ability to fund undercapitalized banks. Thanks to large market value losses in banks owing to less development countries' debt crises and after 1989 bailout the US Congress responded with the Federal Deposit Insurance Corporation Improvement Act (FDICIA) in 1991 (Wall, 2012, pp. 5-6). However, the FDICIA was inadequate in response to defaults in residential housing market in the US. The number of defaults on sub-prime market elevated in 2006. And, subsequently Bear Stearns became illiquid in March 2008 and finally the Federal Reserve bailed out $30 billion fund to Bear Stearns due to its intention to not led to firm bankruptcy. However, another large investment bank, Lehman Brothers announced that it would file for Chapter 11 bankruptcy protection on September 15, 2008 despite several takeover attempts of authorities. Concurrently, Reserve Money Fund collapsed and American International Group (AIG) failured on September 16, 2008 and subsequently the contagious effects of Lehman Brothers quickly dispersed throughout whole financial system. Following these events the US congress launched the Emergency Act with an authorization of Troubled Asset Relief program (TARP). Besides, the Federal Reserve began to conduct QE program and hereby Federal Reserve's balance sheet expanded from $700 billion in 2008 to $4.4 trillion in 2014.

	CA	US	EU	CH	UK	AU	CN	HK	IN	ID	JP	KR	MY	NZ	PH	SG	TH
Ease monetary policy	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Introduce fiscal stimulus		√	√		√	√	√	√	√	√	√	√	√	√	√	√	√
Liquidity assistance in local currency	√	√	√	√	√	√		√	√	√	√	√		√	√	√	√
Lend foreign exchange	√		√	√	√	√			√	√	√	√		√	√	√	
Expand deposit insurance		√	√		√	√		√		√		√	√	√	√	√	√

	CA	US	EU	CH	UK	AU	CN	HK	IN	ID	JP	KR	MY	NZ	PH	SG	TH
Guarantee non-deposit liabilities	√	√	√		√	√						√		√			
Prepare bank capital injection		√	√	√	√		√	√	√		√	√					√
Create demand for assets	√	√	√	√		√	√		√	√	√	√	√				
Impose short sale restrictions	√	√	√	√	√	√		√		√	√	√				√	
Relax mark to market rules		√	√	√	√					√	√	√	√		√		

On the other hand, Euro area countries confronted to two crises: the first one is largely related to banking system which consists of banks that had been heavily invested with US mortgage securities. European Commission launched the European Economic Recovery Plan which provided counter-cyclical fiscal policies in order to reduce the impacts of GFC into the Euro area (Riet, 2010, p.10). In addition; bank rescue programs, government guaranties for interbank lending, recapitalization of financial institutions that had difficulties were adopted by EU states with ECB liquidity support (Attinasi, 2010, p. 13). The second crisis arose due to the high sovereign debt of EU peripheral countries (Greece, Spain, Ireland, Portugal and Italy). For example, Greece faced to large amount of fiscal deficit and government debt (increased to 115% of its GDP by May 2010). Subsequently, Greece reached an agreement with International Monetary Fund (IMF) and European Commission on May 2, 2010 which involves €110 bn of funds. On the other hand, Ireland's government expenditure upsurged subsequently due to the government guarantees for banks that took effect in September 2008. Consequently, Ireland made an agreement with European Financial Stability Facility (EFSF), European Financial Stability Mechanism (EFSM), IMF, UK, Sweden and Denmark that involves 85 billion euros loans (Wall, 2012, p. 16). Portugal, Spain and Italy also confronted to large ratios of sovereign debt to GDP during the same period and Portugal sought bailout package from IMF and EU. On contrary, Spain and Italy didn't get bailout packages while they benefited from the Securities Markets Programme and the Longer-Term Refinancing Operation (LTRO). Policy actions of central banks and monetary, fiscal authorities during GFC can be summarized in Table 1

Table 1. Summary of Policy Actions of Central Banks and Authorities

CA = Canada; US = United States; EU = Euro area; CH = Switzerland; UK = United Kingdom; AU = Australia; CN = China;

HK = Hong Kong SAR; IN = India; ID = Indonesia; JP = Japan; KR = Korea; MY = Malaysia; NZ = New Zealand; PH = Philippines;

SG = Singapore; TH = Thailand.

Source: Filardi et al. (2009, p:9)

It can be seen on Table 1 that monetary easing policy was performed by all of the countries. In addition, all countries except Canada and Switzerland carried out fiscal stimulus policies in order to restore financial stability. Likewise, liquidity assistance in local currency policy was benefited by all of the countries except China and Malaysia.

Euro area countries and Korea were benefited from all of policy actions on Table 1 during GFC. The US conducted all policy actions except lending foreign currency since it has the reserve currency. China implemented the least number of policy actions during GFC in the sample. Comparatively, Asian countries except Korea used the least number of policy actions during GFC.

Challenges in Financial Stability

Central banks are responsible in providing and sustaining financial stability along with other policy assignments. Along with that; central banks have to apply multiple policy goals simultaneously and consistently. For example, central banks have explicit or implicit price stability goals which should be accompanied with financial stability and economic growth. In that regard, independence of central bank vital in order to accomplish pursuing multiple policy goals consistently. For instance, negative correlation between central bank independence and inflation has been observed for advanced economies. Consequently, not only central banks' independence but accountability and transparency are also crucial in order to provide and pursue price stability along with other policy goals. Therefore, obstacles in front of central banks' independence constitute one of the challenges in terms of sustainability of financial stability.

Another challenge that the central banks or supervisory authorities may confront with is conflicting goals between parties. For instance, there is no common fiscal policy implementation within the EU border in contrast to common monetary policy owing to European Monetary Union (EMU). Nevertheless, the policy action of one member state may be insufficient to restore financial stability rapidly during financial crisis and that government may need support from other member state. In that case, the helping country need to convince its voters and citizens in providing support to distressed country since the financial imbalances of troubled country can quickly spread out to the whole Euro area and this situation may be too costly for all EU states. For example, as a peripheral EU state, Greece had high level of debt ratio and budget deficit during Eurozone crisis that are far above than the limits of Stability and Growth Pact (SGP). And, the thread of spreading out contagious effects of this financial imbalance to whole Euro area increased subsequently. During that period, exiting from European Union and adapting its local currency (drachma) were debated in order to reduce domestic inputs and to increase Greece's competitiveness. However, this decision would have been too costly for the remainder of European area and the European Commission, International Monetary Fund (IMF) decided to provide bailout package in return agreeing to make reform on the Greece fiscal policy.

Limited power constitutes another challenge of central bank in financial stability. For example, FED did not actively control prudential operations in the US over-the-counter (OTC) markets in contrast to its active supervisory power on commercial banks (Wall, 2012, p. 11). However, the riskiness arising from OTC market operations contributed significantly to country's financial risk. Along with that, lack of recapitalization and resolution mechanism for systemically important financial institutions (SIFIs) constitute one of main reason behind 2008 financial crisis. In the Euro area on the other hand, ECB can provide liquidity to troubled banks and collaterals or recapitalize insolvent firms' losses. However, these policy actions may only delay the problems in a short period and it may be too costly in future. For example, providing liquidity to insolvent firms may worsen conditions in financial system if they continue to operate without improving their conditions. Consequently, systemic risk level of financial system in Euro area may be escalated which can trigger bursts and turmoils. Therefore, central banks must seek structural and permanent solutions to ensure financial stability rather than temporary solutions.

Conclusion

Contagious effects of financial imbalances can quickly spread out to the real sector and it may trigger bursts and turmoils in the economy. In that regard, central banks are responsible for ensuring financial stability in order to avoid detrimental effects of financial instability. With regard to financial stability, central banks have launched implementing non-conventional policy tools due to insufficient resolution mechanism of restoring conventional policy tools for restoring financial stability in financial bursts. Along with that they gauge and monitor systemic stress level of financial system with high frequency or in low frequency financial stress indexes in order to determine early warning indicators of financial instability states.

Central banks had implemented conventional policy tools such as Tinbergen's policy assignment rule or Jackson Hole Consensus before the great recession. However, due to strict separation of monetary policy and financial stability and suggestion of cleaning rather than leaning against financial imbalances with these conventional policy tools led to avoid rapid restoration of financial stability. Consequently, central banks has sought non-conventional policy actions with regard to financial stability after GFC. They have launched non-conventional policy actions such as QE of FED, asymmetric interest rate corridor of CBRT, identifying and monitoring systemic stress level of financial system with financial stress indexes.

On the other hand, central banks confront to some challenges, obstacles in providing and sustaining financial stability. Independence of central bank, conflicting goals and limited power constitute some of these impediments. These obstacles may avoid central banks to implement and pursue multiple policy goals consistently and timely and efficient intervention of central banks and supervisory authorities. Therefore, overcoming these obstacles and challenges is not only important for countries' financial health themselves but it is also crucial to provide financial stability in globally thanks to strong connectedness of financial systems of countries and rapid contagious effects of financial imbalances to the rest of the world.

Policy suggestions of this chapter can be summarized as follows: i) Central banks and supervisory authorities should implement non-conventional policy tools and they should lean against financial imbalances in order to avoid catastrophic effects of financial imbalances. ii) On account of the fact that rapid contagious effects of financial instabilities, global policy actions should be taken in effect simultaneously in order to ensure financial stability globally. ii) Central banks' challenges in financial stability should be tried to be eliminated or mitigated in order to provide more efficient policy actions to ensure a stable financial system.

References

Allen, W. A., & Wood, G. (2006). Defining and achieving financial stability. Journal of Financial Stability, 2(2), 152-172.

Arzamasov, V., & Penikas, H. (2014). A Financial Stability Index for Israel. Procedia Computer Science, 31, 985-994.

Askari, H., Iqbal, Z., Krichenne, N., & Mirakhor, A. (2011). The stability of Islamic finance: Creating a resilient financial environment for a secure future (Vol. 736). Singapore: John Wiley & Sons.

Attinasi, G. M. (2010). Euro area fiscal policies and the crisis. In V. A. Riet (Ed.), Euro area fiscal policies (pp. 12-21). Frankfurt Am Main.

Balakrishnan, R., Danninger, S., Elekdag, S., & Tytell, I. (2011). The transmission of financial stress from advanced to emerging economies. Emerging Markets Finance and Trade, 47(sup2), 40-68.

Bank of England. (2018, 4 23). Retrieved from Financial Stability: https://www.bankofengland.co.uk/financial-stability

Bank of Japan. (2018, 4 23). Retrieved from Financial System: http://www.boj.or.jp/en/finsys/outline/index.htm/

Bernanke, B., & Gertler, M. (1990). Financial fragility and economic performance. The Quarterly Journal of Economics, 105(1), 87-114.

Bernanke, B., & Gertler, M. (2000). Monetary policy and asset price volatility. Cambridge, MA: National bureau of economic research.

Bordo, M. D., Dueker, M. J., & Wheelock, D. C. (2002). Aggregate price shocks and financial instability: A historical analysis. Economic Inquiry, 40(4), 521-538.

Brave, S., & Butters, R. (2011). Monitoring financial stability: A financial conditions index approach. Economic Perspectives, 35(1), 1-22.

Cardarelli, R., Elekdag, S., & Lall, S. (2011). Financial stress and economic contractions. Journal of Financial Stability, 7(2), 78-97.

Cerqueira, L. E., & Murcia, M. I. C. (2015). A Spanish Financial Market Stress Index (FMSI). Madrid: CNMW.

Cevik, E. I., Dibooglu, S., & Kenc, T. (2013). Measuring financial stress in Turkey. Journal of Policy Modeling, 35(2), 370-383.

Chant, J. F. (2003). Financial Stability as a Policy Goal. In J. Chant, A. Lai, M. Illing, & D. F., Essays on Financial Stability (pp. 1-28). Ottawa, ON: Bank of Canada.

Crockett, A. (1996). The theory and practice of financial stability. De Economist, 144(4), 531-568.

Crockett, A. (1997). Why is financial stability a goal of public policy? Economic Review-Federal Reserve Bank of Kansas City, 82(4), 7-35.

Deutsche Bundesbank - Eurosystem. (2018, 4 23). Retrieved from Role of Bundesbank in financial and monetary stability: https://www.bundesbank.de/Navigation/EN/Tasks/Financial_and_monetary_system/Stability/financial_and_monetary_stability.html

Edwards, S. (2003). Financial Instability in Latin America. Journal of International Money and Finance, 22(7), 1095-1106.

Eidenberger, J., Neudorfer, B., Sigmund, M., & Stein, I. (2014). What predicts financial (in) stability? A Bayesian approach. Frankfurt am Main: Deutsche Bundesbank.

Ferguson, R. W. (2003). Should financial stability be an explicit central bank objective. In P. Ugolini, & F. A. Schaechter, Challenges to Central Banking from Globalized Financial Systems (pp. 208-223). Washington DC: International Monetary Fund.

Filardo, A., George, J., Loretan, M., Ma, G., Munro, A., Shim, I.,& Zhu, H. (2010). The international financial crisis: timeline, impact and policy responses in Asia and the Pacific. Basel: BIS.

Hakkio, C. S., & Keeton, W. R. (2009). Financial stress: what is it, how can it be measured, and why does it matter? Economic Review, 94(2), 5-50.

Haldane, A. G., Hoggarth, G., Saporta, V., & Sinclair, P. (2005). Financial stability and bank solvency. In &. G. D. D. Evanoff (Ed.), Systemic Financial Crises: Resolving Large Bank Insolvencies (pp. 83-113). Singapore: World Scientific Publishing Co. Pte. Ltd.

Hatzius, J., Hooper, P., Mishkin, F. S., Schoenholtz, K. L., & Watson, M. W. (2010). Financial conditions indexes: A fresh look after the financial crisis. Cambridge: MA: National Bureau of Economic Research.

Holmfeldt, M., Rydén, A., Strömberg, L., & Strömqvist, M. (2009). How has the stress on the financial markets developed?–An index-based discussion. Stockholm: Sveriges Riskbank.

Humphrey, T. M. (2010). Lender of last resort: what it is, whence it came, and why the Fed isn't it. Cato Journal, 20(2).

Illing, M. &. (2006). Measuring financial stress in a developed country: An application to Canada. Journal of Financial Stability, 2(3), 243-265.

Islami, M., & Kurz-Kim, J. R. (2014). A single composite financial stress indicator and its real impact in the euro area. International Journal of Finance & Economics, 19(3), 204-211.

Kliesen, K. L., & Smith, D. C. (2010). Measuring financial market stress. St. Louis: Federal Reserve Bank of St. Louis.

Kremer, M., Lo Duca, M., & Holló, D. (2012). CISS-a composite indicator of systemic stress in the financial system. Frankfurt am Main: European Central Bank.

Minsky, H. P. (1992). The financial instability hypothesis. Levy Economics Institute of Bard College.

Mishkin, F. S. (1999). Global financial instability: framework, events, issues. Journal of economic perspectives, 13(4), 3-20.

Morales, M. A., & Estrada, D. (2010). A financial stability index for Colombia. Annals of Finance, 6(4), 555-581.

Nelson, W. R., & Perli, R. (2007). Selected indicators of financial stability. Risk Measurement and Systemic Risk, 4, 343-372.

Norges Bank. (2015, 11 12). Retrieved from FINANCIAL STABILITY REPORT 2015: https://www.norges-bank.no/en/Published/Publications/Financial-Stability-report/2015-Financial-stability

Oet, M. V., Dooley, J. M., & Ong, S. J. (2015). The financial stress index: Identification of systemic risk conditions. Risks, 3(3), 420-444.

Praet, P. (2014). The (changing) role of central banks in financial stability policies. In The Role of Central Banks in Financial Stability: How Has It Changed? In D. D. Evanoff, C. Holthausen, G. G. Kaufman, & M. Kremer (Eds.), World Scientific Studies in International Economics (Vol. 30, pp. 3-9). Singapore: World Scientific Publishing Co Pte Ltd.

Riet, A. V. (2010). Euro area fiscal policies. In A. v. Riet (Ed.), Euro area fiscal policies and the crisis. Frankfurt Am Main: European Central Bank.

Rosengren, E. S. (2011). Defining financial stability, and some policy implications of applying the definition. Keynote Remarks by President of Federal Reserve Bank of Boston at Stanfort Finance Forum. 3, pp. 1-15. Boston: Stanford University.

Schinasi, M. G. (2003). Responsibility of central banks for stability in financial markets. Washington: DC: International Monetary Fund.

Siņenko, N., Titarenko, D., & Āriņš, M. (2013). The Latvian financial stress index as an important element of the financial system stability monitoring framework. Baltic Journal of Economics, 13(2), 87-112.

Swiss Nationa Bank. (2018, 4 23). Retrieved from Financial Stability: https://www.snb.ch/en/iabout/finstab

Vercelli, A. (2000). Structural financial instability and cyclical fluctuations. Structural Change and Economic Dynamics, 11(1-2), 139-156.

Vermeulen, R., Hoeberichts, M., Vašíček, B., Žigraiová, D., Šmídková, K., & de Haan, J. (2015). Financial stress indices and financial crises. Open Economies Review, 26(3), 383-406.

Wall, D. L. (2012). Central Banking for Financial Stability: Some Lessons from the Recent Instability in the United States and Euro Area. Tokyo: Asian Development Bank Institute. Retrieved from http://www.adbi.org/working-paper/2012/08/31/5224.central.banking.financial.stability

Wolfson, M. H. (1990). The causes of financial instability. Journal of Post Keynesian Economics, 12(3), 333-355.

Wyplosz, C. (1998). Globalized financial markets and financial crises. Regulatory and supervisory challenges in a new era of global finance.

Yiu, M. S., Ho, W. Y. A., & Jin, L. (2010). A measure of financial stress in Hong Kong financial market–the financial stress index. Hong Kong: Hong Kong Monetary Authority.

PART IV.

CHAP 2.

RELATIONSHIP BETWEEN THE INFLATION, UNEMPLOYMENT AND MONEY SUPPLY IN TURKEY: BOUND TESTING APPROACH

*Sevilay SARICA**

Introduction

The inflation and unemployment rates constitute two major problems of many countries. One of the primary objectives for the countries is to prevent the inflation and provide the price stability, which has the adverse effects in terms of both the domestic and foreign markets. Increasing and/or decreasing the money supply plays an important role in providing the price stability, as it is one of the most important intervention tools for the monetary policy. On the other hand, as the number of union member labors increases in the periods in which the unemployment rates are low, unions' wage increase requests and acceptance possibilities of them are high; this possibility is lower for the periods in which the unemployment rates are high. Therefore, the nominal wages may increase faster to the periods in which the unemployment rates are low. The increases in the nominal wages cause the cost inflation. An increase in the nominal wages decreases the employers' labor demand by increasing the real wages and causes the unemployment rate to increase. Additionally, an increase in the unemployment rates prevents the increases in the nominal wages by leading the unions' bargaining powers to decrease (Friedman, 1968; Phelps, 1967).

The countries implement the expansionary monetary policy of the Central Bank in order to increase the employment, finance the budget deficit and provide the price stability. This practice makes unavoidable the inflation to arise from the economy. Therefore, we see that both developed and developing many countries are faced with increasing unemployment rate, substantially budget deficit and inflation problems in today's economies. The changes in the unemployment rate and money supply affect the inflations as a result of the policies implemented by the countries in order to tackle these problems. The countries tackle the unemployment by creating new investment areas. Creating the new investment areas is substantially provided as a result of the monetary expansion. This monetary expansion triggers the inflation in time. However, existence of the inflation starts being effective against the unemployment rate for the

* Çankırı Karatekin Üniversitesi, İ.İ.B.F. İktisat Bölümü, İktisat Teorisi

economy in time. When we consider in this direction, we see many causality relationships between the inflation, unemployment rate and money supply in the macroeconomic theory (Parkin, 2010). In this context, the studies to be performed in respect of both the inflation and unemployment have great importance in terms of the success of policies to be implemented for the money on one hand and the labor market on the other hand.

When we consider Turkey's economy, it is known that the inflation rate was three-digit in the 1980s and two-digit in the later years. The existence of inflation was the most important factor blocking the investments and prevented the existing unemployment to decrease to the economy in these years. The most important reason for the high inflation continuing to the end of the 1980s constituted to finance increasing public deficits by making the monetary expansion and by monetizing. When we consider the TÜİK data onto Turkey, we see an increasing inflation rate and an inverse relationship between these two variables as a result of decreasing the unemployment rate in the periods 1980 and 1984. We also see that the inflation and unemployment substantially respectively a parallelism between the 1984 and 1993. While the inflation rate was 3-digit in 1994 crisis, it is seen that the unemployment rate decreased by the effect of the crisis. The existence of a weak but inverse relationship is discussed between the inflation and unemployment rate between the 1995 and 2000. We see that the unemployment rate increased while the inflation rate decreased after 2001 crisis. Financing the current deficit arising from the economy may be substantially discussed with the privatization incomes and foreign indebtment instead of the inflation. The inflation became single-digit as a result of this practice. While the inflation rate decreased the unemployment rate increased in 2009 crisis, and the crisis had a big influence on this matter. There is a parallelism in the change between the inflation rate and unemployment after 2009 crisis (TÜİK, 2017). In conclusion, although the inflation rates and unemployment rates took joint action, it is possible to think that they are in an inverse relationship in principle.

In addition, the CBRT (The Central Bank of the Republic of Turkey) was seen that it especially implemented the inflation targeting model in order to provide the price stability for a long time. However, desired success could not be reached in this model implemented. This unsuccess occurred due to the not being a consistent relationship between the inflation rates and implemented interested policy that the CBRT revealed as a target.

The main purpose of our study is to reveal whether there is a statistically significant relationship between these 3 variables in terms of the long-run, by discussing the relationship between the inflation, unemployment rate and money supply in detail. A time-series analysis was performed by using the trimester data belonging to the periods 2005:1 and 2017:4 in accordance with this purpose of Turkey. The ADF, DF and PP unit root tests and Bound Testing and Granger Causality Test were used in the analysis. The study consists of 6 sections. While the introduction is explained in the first section, the theoretical relationships between the inflation, unemployment rates and money supply are detailed in the second section. The findings and results of previous empirical studies analyzing the relationship between the inflation, unemployment rate and money supply are mentioned in the third section. The data to be used and method to be implemented in the analysis are tried to detail in the fourth section. The empirical evidence obtained as a result of the analysis is included in the fifth section. The results obtained as part of the empirical evidence are interpreted in the sixth section.

2. Theory Of Relationship Between The Inflation, Unemployment And Money Supply

When we theoretically consider, the targets of providing the price stability in the economy and preventing the unemployment are known as the targets fitting into one another. While the most important cost of the policies implemented in order to decrease the inflation was the increase in unemployment in the economy, the cost of providing the full employment by decreasing the unemployment was the inflation. The economist named A. William Phillips was the first person analyzing this inverse relationship between the inflation and unemployment. However, Phillips firstly analyzed the relationship between the wage increases or wage to the inflation and unemployment level in terms of empirical matter. Phillips determined that there was an inverse relationship between the wage to the inflation and unemployment rate in England, in the study performed in 1958 (Phillips, 1958).

The first phase is the phase in which the Phillips Curve shaped. It was shaped by Phillips (1958), Lipsey (1960) and Samuelson & Solow (1960). It was revealed that there was an inverse and consistent relationship between the change rate in the samu% and unemployment rate in the money wages in Phillips's analysis. While the unemployment rates increased, increase rate of the money wages decreased, and the relationship was more consistent with these two variables.

P.A Samuelson and R. Solow transformed the curve into a relationship between the inflation rate and unemployment rates by replacing the change rate of money wages with the inflation rate for the Phillips curve, in the joint study performed by them in the 1960s. While Semuelson and Solow made suggestions for the policymakers, they also revealed that a lower unemployment rate could be only possible upon being accepted of a higher inflation rate and targeting a lower inflation rate could be provided by a higher unemployment (Samuelson & Solow, 1960, pp. 177-194).

The second phase is based on the Natural Unemployment Rate Hypothesis. This hypothesis was revealed by Phelps (1967) and Friedman (1968) at the end of the 1960s and known as the Natural Unemployment Rate Hypothesis. It reveals that there is not a continuous inverse relationship between the inflation rates and unemployment rates in the Phillips curve in the long-run, and there is a vertical line in the natural unemployment rate of the Phillips curve in the long-run. Therefore, This Phillips curve revealed by Friedman and the labor supply expressed by the neo Keynesians were accepted as a function of the real wage but not the nominal wage. On the other hand, Friedman included the inflation expectations in the analysis (Friedman, 1968; Phelps, 1967). Friedman indicated a negative relationship revealed by Phillips. It was only valid for the short-run, there is not such a relationship between the inflation rate and unemployment rate in the long-run and the unemployment rate was in a natural unemployment level independent from the inflation rate (Friedman, 1977, pp. 451-472).

Friedman and Phelps reached two main results. If changing inflation expectations, the first one of these results, are considered; the Philips curve loses its stabilization in time. The inflation rate expected in a point of the Phillips curve causes a new expected inflation rate and displaces the Phillips curve in the second result, respectively (Friedman, 1968; Phelps, 1967). In conclusion, some expectations were discussed in the model of Semulson and Solow. However, it was defended herein that the expectations were static (stable) and the actual inflation rate was not affected (Samuelson & Solow, 1960, pp. 177-194). The expectations in the model of Friedman and Phelps were discussed as the adaptive expectations and the assumption was revealed that an increase in the actual inflation rate increases the inflation rate expected (Friedman, 1968; Phelps, 1967).

The third phase is based on the new classical approach analyzing the Phillips Curve as part of the Rational Expectations. Friedman supposed in the explanations in respect to the Phillips curve that the individuals changed their inflation rate forecasts expected for the future period in harmony with the inflation rate they have. However, John Muth, who is one of the representatives of new classical theory, published an article in 1961 about the new and extreme type of the monetarist opinion. Muth included the rational expectation approach to the analysis by revealing that adaptive expectation approach suggested by the Monetarist theory was quite insufficient in the article titled as the "Rational Expectations and the Theory of Price Movements". Muth also revealed in the article that the expectations of forward-thinking individuals were rational and individuals were not mistaken in their both the short-run and in the long-run expectations (Muth, 1961, pp. 315-335). In conclusion, this suggested opinion defended that the Phillips curve was always a vertical line to the unemployment rate axis in the natural unemployment rate as long as there is not a shocking policy change in the economy (Parasız, 1998, p. 290).

Lucas (1972a, 1972b, 1973a & 1973b), Barro (1977, 1978), Sargent & Neil Wallace (1973, 1975, 1976, 1981) revealed as the leaders of new classical approach that the Phillips curve was vertical both in the short-run and long-run. As a result of the study they performed the study as suggested by the Monetarists. Therefore, the new classics stated that an increase occurring in the total claims resulted in the price increases in terms of the short-run and long-run effects. In conclusion, the new classics reveal that the opinion of being an inverse relationship between the inflation rates and unemployment rates brought by the Phillips curve is not valid both in the short-run and long-run. In other words, the approach to classics is expressed as the policy inefficiency hypothesis.

The workers having a rational expectation expect that an increase in the money supply increases the general level of prices when the money supply increases according to the rational expectations theory. The workers and unions expecting the P to increase as a result of this condition make request the W and/or nominal wages to increase, as they forecast the real wages to decrease with reference to w=W/P.

When we consider the 1970s, the economists' beliefs were damaged for the opinions in respect to suggested Phillips curve up to now, as the Stagflation phenomenon, in other words an increase comes into existence both the inflation and unemployment. They tried to explain the new Keynesian theory unemployment-inflation relationship to the NAIRU (non-accelerating inflation rate of unemployment) and hysteria hypothesis in this period (Ball & Mankiw, 2002, pp. 115-136). The new Keynesians revealed the NAIRU as an unemployment rates non-accelerating the inflation. If the NAIRU is higher than the actual current unemployment rate for the economy, this condition brings the inflation rate for the upward tendency according to this theory. On the contrary, if the NAIRU is lower than the new current unemployment rate, the inflation rate enters in the downward tendency (Espinosa-Vega & Russell, 1997, pp. 4-25). On the other hand, the new Keynesians used the NAIRU concept instead of the natural unemployment rate, when they discussed the long-run unemployment (Modigliani & Pademos, 1975, p. 142). The NAIRU is also expressed as an unemployment rate not requiring the urgent changes in the inflation rate (Snowdon & Vane, 2005, p. 403).

The new Keynesians revealed the same result with the monetarists in respect of the Phillips curve in their analyses including their inflationary expectations. In other words, they emphasized that there was a negative slopping curve in terms of the short-run, while there was a Phillips curve vertical to the horizontal axis in terms of the long-run. If the price expectations progress more slowly than the actual inflation in the economy, the expansionary policies to be implemented in this condition provide the production and employment to increase according to this opinion. In this direction, the new Keynesians revealed that the state may implement the expansionary money and fiscal policies to affect these two variables, by accepting the existence of a negative relationship between the inflation rate and unemployment rate in the short-run.

When we consider the 1980s, the new Keynesians explained the relationship between the inflation rate and unemployment rate with the nominal wage and rigidity in the prices instead of the real wage and rigidity in the prices (Ball, Mankiw & Romer, 1988, p. 5). While there is a negative relationship between the inflation rate and unemployment rate in terms of the short-run, the unemployment rate is independent of the inflation rate in the long-run according to the new Keynesian economists. In other words, while the Phillips curve is a negative slopping in terms of the short-run, it is a vertical line to the horizontal axis in terms of the long-run. They explained this condition with the hysteria hypothesis (Ball & Mankiw, 2002, pp. 115-136).

The Classical-Neoclassical Approach: The price level in all markets is more flexible in the new classical approach to such a way that it provides a balance in these markets. Therefore, there is a balance in both the short-run and long-run. An increase occurring in the money supply is expressed that it increases the prices in the same amount, as the cash flow rate and real GDP do not change in the short-run according to the classical approach. The thinking behind it is indicated that an increase in the money supply increases the expenses in the economy, however; this expense increase raises the general level of prices in a case where the economy is in the full employment (Parkin, 2010). Therefore, the reason for the price increases and/or inflation in the classical theory is the continuous increases coming into existence in the money supply. On the other hand, the firms prefer to employ more workers at the higher nominal wage in order to meet the increasing demand. However, although the firms pay high wages to the workers as the economy in the full employment, it is not possible to ramp-up the production by increasing the employment. Increasing wages causes the costs and prices to increase to this condition, even though the production does not change (Froyen, 2012).

The Keynesian Model: The prices are strict in this model. Therefore, the balance may not be provided for the markets due to the slow adjustments of prices. The workers agree to work at the nominal wage in the Keynesian theory. However, the firms do not employ workers due to the demand insufficiency in the economy even though the workers agree to work at the nominal wage, and this condition causes the underemployment to come into existence for the economy. This demand insufficiency should be eliminated by increasing the total expenses in order to remove the underemployment (Froyen, 2012).

The Monetarist Approach: The V, cash flow rate, is not constant but consistent according to the monetarist approach. While the cash flow rate is variable in terms of the short-run, it takes a constant value for the long-run. Therefore, while the monetary policy is effective against the short-run, it is not effective against the long-run. In other words, while an increase occurring in the MS is increasing the GDP in the short-run, the increase occurring in the MS increases the prices in the long-run (Froyen, 2012).

When we consider the economic literature, both the monetarist and Keynesian economists defend that the increases in the money supply cause the inflation in the long-run. However, the Keynesians also emphasized that the inflation is determined by the factors apart from the money supply for the short-run differently from the monetarists. The monetarists defended that the main reason for inflation was resulted from the increases in the money supply and tried to explain this condition with the historical inflation cases. Friedman and other monetarists always accepted the inflations a monetary phenomenon (Parkin, 2010). But, the worth-emphasizing condition herein is that the continuous increases cause the inflation rather than a one-shot increase in the money supply. Because, the inflation expresses the continuous increases in the general price levels (Parkin, 2010).

When we consider the reasons for increasing the money supply, we understand that the Central Bank has the economic goals such as reaching the high employment target, financing the budget deficit and acquiring the seniorage income. In conclusion, the inflation's existence is inevitable in the economy as a result of the expansionary monetary policy practices (in other words, as a result of increasing the money supply) to realize all these objectives of the Central Bank (Parkin, 2010).

3. Empirical Studies Related To Relationship Between The Inflation, Unemployment And Money Supply

A.W. Phillips investigated the relationship between the nominal wages and unemployment rate by using the annual data between the 1861 and 1957 and revealed that there was a negative relationship between these two variables as a result of the study performed in 1958 for England (Phillips, 1958, pp. 283-299).

Fountas, Lally and Wu analyzed the relationship between the prices, wages, labor productivity and expected prices based on the periods of 1975 and 1992 in the study performed in 1999 for Ireland's economy. They reached the result supporting the short-run Phillips curve relationship as a result of the study (Fountas, Lally & Wu, 1999, pp. 317-321).

Nwala tested the validity of Phillips curve based on the periods 1993 and 2000 in the study performed in 2003 for USA's economy. It came into existence that there was not a relationship in terms of the short-run between the inflation and unemployment for the period discussed as a result of the study (Nwala, 2003, p. 168).

Bhattarai researched the relationship between the unemployment and inflation based on the periods 1970:2 and 2002:1 and by using the panel data analysis in the study containing the OECD countries in 2004. It was determined that the relationship revealed by the Phillips curve was partly valid as a result of the study (Bhattarai, 2004, pp. 93-103).

Kuştepeli analyzed the relationship between the unemployment rate and inflation rate based on the periods 1980 and 2003 and by making the regression analysis in the study performed in 2005 for Turkey's economy. While there was not a relationship between the inflation and unemployment, it was also determined that the inflation was a more important indicator in proportion to the unemployment, when the inflation was expected as a result of the analysis (Kuştepeli, 2005, pp. 581-591).

Pallis researched the relationship between the unemployment and inflation by discussing the periods 1994 and 2005 in the study performed in 2006 for the EU countries including Czech Republic, Estonia, Southern Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia. It was seen that reaching efforts into the unemployment resulted in increasing inflation under forecasted natural rate for every country discussed as a result of the study. In other words, the necessity of increasing the unemployment rate for an obtained natural unemployment rate was determined for a given period in order to decrease the inflation rate for every country (Pallis, 2006, pp. 80-88).

Kitova researched the relationship between the unemployment and inflation in the study performed in 2008 for Austria and France. The model revealing the existing relationship to the Phillips Curve was seen as significant at the rate of more than 90% as a result of the study. This result expresses to us that the relationship revealed by the Phillips Curve is valid for two countries discussed. Another result obtained in the study is that the inflation causes the unemployment for a given period for these two countries (Kitova, 2007, pp. 1-40).

Çatık, Christopher and Önder analyzed the relationship between the inflation and output gap based on the periods 1996 and 2007 in the study performed in 2008 for Turkey. The relationship revealed by the Phillips curve was found invalid in terms of Turkey in the period discussed as a result of the study in which the ARDL model was implemented (Çatık, Christopher & Önder, 2008).

Herman investigated the relationship between the unemployment rates and inflation. The study was performed in 2010 for Romania's economy based on the periods 1990 and 2009. The relationship between the unemployment rate and inflation rate was not statistically seen as significant for the period discussed in the study in which the correlation analysis was performed (Herman, 2010, pp. 157-170).

Arabacı and Eryiğit analyzed the relationship between the unemployment rate and inflation rate by discussing the periods 1991:1 and 2010:4 in the study performed in 2012 for Turkey. The Philips curve was seen invalid in terms of Turkey in the study in which the regression analysis was used (Arabacı & Eryiğit, 2012, pp. 29-47).

Bayrak and Kanca investigated the relationship between the unemployment rate and inflation rate by discussing the periods 1970 and 2010 n the study performed in 2013 for Turkey's economy. While the relationship revealed by the Phillips curve was valid in terms of the short-run, the relationship revealed by the Phillips curve determined as invalid in terms of the long-run in the study in which the cointegration test was used (Bayrak & Kanca, 2013, pp. 97-115).

Berentson, Menzio and Wright analyzed the relationship between the inflation and unemployment in terms of the long-run based on the data of periods 1970 and 1980 in 2011. They determined a negative relationship between the inflation and unemployment rate as a result of the study (Berentson, Menzio & Wright, 2011, pp. 371-398).

Chicheke investigated the relationship between the unemployment rate and inflation, in other words, the Phillips curve, by using the data belonging to the periods 1980 and 2008 in the study performed in 2009 for South Africa. The VEC (Error Correction Model) was used in the study. The existence of a negative relationship was revealed between the inflation and unemployment rate, as revealed by the traditional Phillips curve as a result of the analysis. The necessity of implementing the strict monetary policy was emphasized as the necessary measures to be taken in the study (Chicheke, 2009, pp. 74-96).

Altay, Tuğcu and Topcu researched the relationship between the unemployment and inflation by discussing the trimester data belonging to the periods 2000:1 and 2009:4 in the study performed in 2011 containing the G8 countries. The cointegration relationship was determined between the variables as a result of the study in which the panel data analysis method and Granger causality test were implemented. Another result obtained in the study was that the causality direction was from the inflation to the unemployment in terms of the short-run, while this causality direction was from the unemployment to the inflation in the long-run (Altay, Tuğcu & Topcu, 2011, pp. 1-27).

Uysal and Erdoğan analyzed the relationship between the unemployment rate and price level based on the periods 1980 and 2002 in the study performed in 2003 for Turkey's economy. A positive relationship was found between the unemployment rates and price levels belonging to the periods 1980 and 1990. A negative relationship was determined in the periods 1990 and 2002 in the study in which the regression analysis and causality test were performed (Uysal & Erdoğan, 2003, pp. 35-47).

Hepsağ tested the validity of relationship revealed by the Phillips curve between the inflation and unemployment in the analysis performed in 2009 for Turkey's economy. It was concluded that there was not a relationship revealed by the Phillips curve between the inflation and unemployment in terms of the short-run. However; such a relationship could be discussed in terms of the long-run as a result of the study in which the ARDL test was used and the periods 2001:1 and 2007:3 were considered. On the other hand, the inflation belonging to the previous period was determined as effective rather than the unemployment rate for the current period inflation variables in terms of the short-run in the study. The unemployment rate was emphasized to be considered as a reliable variable while determining the inflation rate in terms of the long-run (Hepsağ, 2009, pp. 169-190).

Gül, Kamacı and Konya investigated the existence of a long-run relationship between the inflation and unemployment in the study in 2014, which was performed by 4 countries (Azerbaijan, Kazakhstan, Kyrgyzstan and Macedonia) together with Turkey and in which the periods

2006 and 2012 were considered. It was determined that there was an one-way causality from the inflation to the unemployment in terms of the long-run in the study in which the cointegration test and causality test were performed (Gül, Kamacı & Konya, 2014).

Şentürk and Akbaş researched the relationship between the inflation, unemployment and economic growth in the study performed in 2014 by discussing the periods 2005:1 and 2012:7 for Turkey's economy. It was found that there was a two-way a causality relationship between the unemployment and both the industrial production index and inflation in the study in which the causality test was implemented (Şentürk & Akbaş, 2014, pp. 5820-5832).

Özçelik and Uslu analyzed the relationship between the unemployment, to the inflation and economic growth by using the time series belonging the periods 2007:1 and 2014:12 in the study performed in 2017 for Turkey's economy. It was determined that there was a two-way causality between the unemployment and economic growth. However; there was not any causal relationship between the inflation and both the unemployment and economic growth as a result of the study in which the Johansen cointegration test and Granger causality test were used (Özçelik & Uslu, 2017, pp. 31-51).

Schreiber and Wolters researched the long-run relationship between the inflation and unemployment rates by using the cointegration test n the study performed in 2007 for Germany. Then, they determined that there was a negative relationship between the inflation and unemployment by using the Vector Error Correction Model (VECM) (Schreiber & Wolters, 2007, pp. 355-367).

Marcellino and Mizon analyzed whether there was a cointegration relationship between the real wage, output per person, inflation and unemployment by using the data containing the periods 1970 and 1994 in the study performed in 2001 for Italy's economy. They determined that there was a structural breakage in 1980 and divided into their analyses into the sub-periods including the periods 1970 and 1979 and 1980 and 1994 in the analysis performed. The existence of cointegration relationship was determined between these four variables for every two periods as a result of the research (Marcellino & Mizon, 2001, pp. 359-370).

Türkyılmaz and Özer researched the long-run cointegration relationship between the employment, real wages, productivity, prices and unemployment rate by using the monthly data belonging to the periods 1988:10 and 2004:03 in the study performed in 2008 for Turkey. The existence of cointegration relationship was revealed between all the variables as a result of the Johansen cointegration test. On the other hand, a positive relationship was determined between the real wages and productivity and between the real wages and unemployment rate in the study (Türkyılmaz & Özer, 2008, pp. 175-189).

Setterfield investigated the relationship between the inflation, real wage and unemployment in the study performed in 2003 based on the 1990s in USA's economy. It was seen that the unemployment rate reached to the infinite value, in a case where the inflation rate annually decreased below 2.9% as a result of the study (Setterfield & Lebland, 2003, pp. 361-376).

Emsen, Kuşcu and Sarsılmaz analyzed the relationship between the wage, price and unemployment in the study performed in 2003 for Kazakhstan's economy. A negative relationship was specified between the wages, inflation rate and unemployment rate as revealed by the Phillips curve as a result of the study. However, the relationship between the inflation rates and unemployment rates was determined as more significant (Emsen, Kuşcu & Sarsılmaz, 2003, pp. 81-99).

Turner and Benavides investigated the relationship between the inflation and unemployment by discussing the data belonging to the periods 1980 and 1999 in the study performed in 2001 for Mexico. It was determined that there was an inverse relationship between the inflation and unemployment rates. The inflation rate did not monthly decrease to 0.73% in a case where the unemployment rates reached to the infinite value as a result of the study in which the nonlinear least squares method was used (Turner & Benavides, 2001, pp. 775-778).

Tajra analyzed the relationship between the inflation rate and unemployment rate by using the nonlinear least squares method based on the periods 1994 and 1999 in the study performed in 1999 for Brasil. A negative relationship was determined between the inflation rate and unemployment rate as a result of the analysis (Tajra, 1999, pp. 8-45).

Meltzer revealed that the inflation accelerated by the money supply to meet the public expenditures in Argentina, Bolivia and Brasil in the 1980s. The article for this study was published in 1989. However, the monetary expansion was not preferred in order to meet the budget deficits of state in USA, Japan and some industrialized countries; and this condition caused the inflationist effect to come into existence in the economy (Meltzer, 1989).

Darrat found that the monetary growth had a significant effect on the inflations a result of preferring the growth in order to finance the budget deficits of state after 1960 in the study performed in 1985 in USA (Darrat, 1985, pp. 206-215).

Akhing and Miller determined that there was a causal relationship to cover the budget deficits for the economy between the money supply and inflation in the 1950s and 1970s. The study also revealed that this relationship was lost in the 1960s in the study performed in 1985 in the USA (Akhing & Miller, 1985, pp. 447-467).

Alavirad researched the relationship between the budget deficits, money supply and inflation by using the data belonging to the periods 1987:1 and 1997:1 in the study performed in 2003 for Iran's economy. The study revealed that the inflation increased in the economy as a result of meeting the budget deficits with the monetary expansion (Alavirad, 2003, pp. 331-341).

Nachega researched the relationship between the budget deficits and seniorage incomes and monetary growth and inflation by using the data of the periods 1981 and 2000 in the study performed in 2005 for the Democratic Republic of Congo. A statistically significant relationship was found between the monetary growth and inflation in terms of the long-run in the study (Nachega, 2005, pp. 30).

Özgür researched the long-run relationship of the budget deficits and money in circulation on the inflation by using annual data for the periods 1950 and 1995 and the trimester data for the periods 1985:2 and 1998:4 in the study performed in 2000 for Turkey. The existence of a linear positive relationship was determined between the cash flow rate and inflation in the long-run as a result of the study in which the cointegration analysis was performed (Özgür, 2000).

Tekin-Koru and Özmen tried to determine the relationship between the budget deficits, monetary growth and inflation by using the data of the periods 1983:1 and 1994:1 in the research performed in 2003 for Turkey. The monetary expansion was determined that it had a positive effect on the money in circulation and broad-based money discussed in the study performed in which the cointegration analysis was considered. However, this positive relationship is emphasized as insignificant (Tekin-Koru & Özmen, 2003, pp. 591-596).

Altıntaş, Çetintaş and Taban researched the relationship between the budget deficit, money supply and inflation in the abovementioned period in Turkey by using the monthly data for the periods 1992:1 and 2006:1 in the study performed in 2008. A positive and significant relationship was determined between the monetary growth and inflation in terms of both the short-run and long-run in the study performed by using the ARDL Test (Bound Testing Approach) (Altıntaş, Çetintaş & Taban, 2008, pp. 185-208).

When we consider the empirical literature we summarized, the relationship was analyzed between the inflation rate and unemployment rate in the studies performed for Ireland, 10 EU countries, Austria and France, South Africa, Germany, Kazakhstan and Brasil. The relationship revealed by the Phillips curve, in other words; the negative relationship between the inflation rates and unemployment rates emphasized to be valid as a result of the studies. However, while the relationship revealed by the Phillips curve was valid in terms of the short-run in the study performed for the USA, the relationship revealed by the Phillips curve was concluded to be partly valid in the study performed for the OECD countries. While there was causality from the inflation to the unemployment in terms of the short-run, it was found from the unemployment to the inflation in terms of the long-run in the study performed for the G8 countries. The existence of a one-way relationship was revealed between these two variables in the study performed for Mexico. The relationship revealed by the Phillips curve was concluded to be valid but statistically insignificant in the study containing Romania's economy. While there was not any relationship between the inflation rate and unemployment rate in three of the studies performed for Turkey, the analysis was divided into two periods in another study and the relationship was found as positive in the first one and as negative in the second one. Two studies performed for Turkey are challenging. While the first study revealed the relationship revealed by the Phillips curve as invalid in terms of the short-run but valid in terms of the long-run, the other one stated this relationship as valid in the short-run but invalid in the long-run. The causality relationship was discussed between these variables in other three studies performed for Turkey. The causality relationship was determined as one-way from the inflation to the unemployment in terms of the long-run in the first of these studies, it was found as two-way in the second one. There was not any causality relationship was not found between the variables in the third study.

The increase in the money supply was revealed that it increased the inflation in almost all the studies revealing the relationship between the inflation and money supply. When we consider the studies performed for Turkey, it was concluded that there was a positive relationship between the monetary growth or money supply and inflation in three studies. However, while the first one of these studies revealed the positive relationship as valid only for the long-run, the second one stated that it was valid for both the long-run and short-run. It was specified in the third study that the monetary expansion had a positive effect on the inflation and this positive relationship was statistically insignificant.

The most important difference in this study rather than the other studies is to research the existence of a long-run relationship between these three variables by discussing the inflation, unemployment rate and money supply variables together. In this context, researching the cointegration and causality relationship is thought that they make a significant contribution to the variables by discussing these three variables in terms of Turkey.

4. Method

In this study, the long-run relationship between the unemployment and money supplies and causality of this relationship were analyzed. In the analysis, the Bound Test was used in revealing the long-run relationship between the inflation, unemployment and money supply. The Granger Causality Test was implemented in determining the causality relationship between the variables (Granger, 1969, 1988). The ARDL test Pesaran et al. (2001), also known as the Bound Test, was preferred due to being usable of the series in a case where both the stability levels were different from each other and practicing in the small observation numbers according to the Engle-Granger (1987), Johansen (1988) and Johansen-Juselius (1990) tests (Narayan & Narayan, 2004, pp. 25; Pesaran et al., 2001).

4.1.1. Ardl test (bound testıng approach)

The existence of a long-run relationship should be revealed by the cointegration test before revealing the causality relationships between the variables. The cointegration tests performed using the by the Engle-Granger (1987), Johansen (1988) and Johansen-Juselius (1990) tests and tests developed by Pesaran et al. (2001). In the study, the Bound Test developed by Pesaran et al. (2001) is used due to the advantages it has.

The AIC or SC criteria are used to select the lag length, as it is in the unit root tests. On the other hand, the autocorrelation problem should not happen to the error terms in terms of being given the healthy results from this test. The lag length model providing the smallest AIC value is accepted herein as the lag length. However, if there is an autocorrelation problem with the model selected according to the smallest AIC value; in this case, the lag length of the model giving the second the smallest AIC value is selected. This period continues, until the autocorrelation problem is disappeared. After determining the appropriate lag length, a long-run relationship's existence is tested by the F-test (Wald Test) between the variables, if determined lag length does not contain an autocorrelation. The statistics of Pesaran et al. (2001) or Narayan (2005) tests may be discussed in the test statistic. Although Pesaran et al. (2001) developed the ARDL method, Narayan (2005) developed the test statistic based on the number of observations for smaller observations.

The AIC or SC criteria are used in determining the lag length, as it is in the unit root tests for the ARDL test. There should not be an autocorrelation problem with the error terms to reach the healthy results of this test. The lag length is considered whether it has an autocorrelation after determining the most suitable lag length. If there is not an autocorrelation problem, the F-Test (Wald Test) is performed in order to reveal the existence of a long-run relationship between the variables. The test statistics of Pesaran et al. (2001) or Narayan (2005) are used in the F-Test statistic.

4.1.2. Granger causality test

The Granger causality test developed by Granger (1969, 1988) is the most frequently used test n determining the causality relationship between the variables in applied econometric studies. If there is not a causality relationship between the variables, the results of regression analysis do not make sense in terms of the economics, even it is statistically significant. Equation 2 and Equation 3 are used to determine the causality relationship of variables.

$$X_t = \sum_{j=1}^{p} A_{11,j} X_{t\text{-}j} + \sum_{j=1}^{p} A_{12,j} Y_{t\text{-}j} + e_{1,t} \tag{2}$$

$$Y_t = \sum_{j=1}^{p} A_{21,j} Y_{t\text{-}j} + \sum_{j=1}^{p} A_{22,j} X_{t\text{-}j} + e_{2,t} \tag{3}$$

The Granger Causality Tests performed by testing whether delayed values' coefficients for Yt, which is an independent variable in Equation 2 equal to zero in groups (all A12s). The test used herein is the F test (Wald test). If the coefficients of all A12s are found different than zero in a certain significance level in Equation 2, Y is considered as the reason for X. In other words, if the variance in e1 decreases by adding Y term with Equation 2, Y is said as the Granger reason for X. Similarly, if the coefficients of all A22s are found different than zero in a certain significance level in Equation 3, X is considered as the reason for Y. In other words, if the variance in e2 decreases by adding X in Equation 3, X is said as the Granger reason for Y. If the coefficients of A12 and A22 are synchronously significant in the analysis results related to Equation 2 and Equation 3, there are a mutual causality relationship between Y and X. However, if the coefficients of A12s are different than zero in Equation 2, there is a unidirectional causality from Y to X and if the coefficients of A22 are different than zero in Equation 3, there is a unidirectional causality from X to Y. If the coefficients of both A12 and A22 are not different than zero, there are not any causal relationship between X and Y.

5. Data And Empırıcal Results

In this study, the cointegration relationship and causality relationship were searched for the inflation, unemployment and money supply variables in Turkey's economy. The data we used in the study is the trimester data containing the periods 2005:1 and 2017:4. While the CPI (consumer price index) index represents the inflation variable, the M2 money supply indicates the money supply. The unemployment rate consists of the unemployment rate series in Turkey. The data sets belonging to the CPI index, M2 money supply and unemployment rate were obtained from the electronic data distribution system of the CBRT. When we consider the series, taking the direct natural logarithms of series was preferred, as the seasonality effect was not encountered in the series belonging to CPI and M2 variables. However, when we consider the unemployment rate series, the series firstly were separated from the seasonal effect and its natural logarithm was then taken, as the seasonality effect was seen in the series. On the other hand, the trend was also included in our model, as the dependent variable of CPI index materially included the trend. In conclusion, the analysis was performed after making the necessary corrections in respect to the CPI (CPI), unemployment rate (UR) and money supply (M2) series.

5.1. Unit root test results

The ADF (Augmented Dickey-Fuller) (1981), DF (Dickey-Fuller) (1979) and PP (Phillips Perron) (1988) unit root tests were used to test whether they were stable when we discussed the CPI, UR and M2 series representing the inflation, unemployment rate and money supply variables in the analysis. Implemented unit root test results are respectively in Table 1.

Table 1: Results of ADF, Dickey-Fuller and Phillips Perron Unit Root Test

Variable	Level/ First Difference	ADF Test Statistic		DF Test Statistic		PP Test Statistic		Result
		Constant	Constant Trend	Constant	Constant Trend	Constant	Constant Trend	
lnCPI	Level	1.124(8)	-3.684(0)**	1.590(8)	-2.092(8)	0.348(17)	-3.556(7)**	I (1)
	First Difference	-1.479(7)	-1.079(7)	-1.264(7)	-1.750(7)	-12.710(27)***	-12.489 (27)***	
InUR	Level	-2.161(1)	-2.340(1)	-2.056(1)**	-2.465(1)	-1.712(3)	-1.810(3)	I (1)
	First Difference	-3.755(0)***	-3.740(0)**	-3.540(0)***	-3.751(0)**	-3.636(4)***	-3.616(4)**	
LnM2	Level	-3.217(0)**	-4.944(0)***	0.832(1)	-1.787(0)	-3.217(0)**	-19.286(50)***	I (1)
	First Difference	-6.557(0)***	-7.064(0)***	-6.347(2)***	-7.185(0)***	-6.552(1)***	-7.064(0)***	

The values in brackets are the lag lengths selected by using the SIC and maximum lag length was taken as 10. The optimal lag length in the PP test was found by benefiting from Bartlett Kernel (default) Spectral Estimation Method and Newey-West Bandwidth (automatic selection) criteria.

The ***, **, and * signs express the significance at the level of 1%, 5% and 10% respectively and state that the variables are stable at the level of 1%, 5% and 10% respectively.

Table 1 shows the unit root test results of series belonging to the CPI (consumer price index), UR (unemployment rate) and M2 (money supply) variables. When we consider the table (Augmented Dickey-Fuller), it is seen that all the CPI, UR and M2 variables were not stable at the level. The CPI variable became stable according to the PP unit root test results. In this condition, the first differences of CPI, UR and M2 variables were taken and UR and M2 variables became stable for all the ADF, DF and PP unit root tests with the unit root test results of DF (Dickey-Fuller) and PP (Phillips-Perron). In this condition the integration degree of CPI, UR and M2 series is I(1).

5.2. Bound testing approach

The lnCPI, InUR and lnM2 series became stable after their first differences were taken as a result of implemented ADF, DF and PP unit root tests and ARDL test (Bound Testing) were performed after determining the cointegration degree as I(1). In our study, the econometric model to be used by the tervalent ARDL test consisted of the CPI dependent variable, UR and M2 independent variables are as follows:

$$\Delta lnCPI_t=\beta_0+\sum_{i=1}^{p}\beta_{1i}\Delta\, lnCPI_{t-i}+\sum_{i=0}^{p}\beta_{2i}\Delta\, lnUR_{t-i}+\sum_{i=0}^{p}\beta_{3i}\Delta\, lnM2_{t-i}+\lambda_1 lnCPI_{t-1}+\lambda_2 lnUR_{t-1+}\lambda_3 lnM2_{t-1+}+\varepsilon_t \qquad (1)$$

While εt is showing the error term, Δ indicates the first difference operator in Equation 1. The AIC and SC criteria are used in selecting the lag length in the model. Moreover, the autocorrelation problem should not be encountered with the error terms to reach the healthy results as a result of this test. In the study, the lag length model giving the smallest AIC values is selected as the lag length. However, if the autocorrelation problem comes into existence for the model selected by discussing the smallest AIC value, the lag length model giving the second smallest AIC value is taken. In principle, this period continues until existing autocorrelation problem completely goes away.

The lag length indicated as p should be firstly determined in Equation 1 to perform the practice of ARDL test. The AIC and SC criteria are discussed in this test, as it is in the unit root test. The optimum lag length is taken as 8 due to the data set is in the quarter (trimester) period by discussing Equation 1 and it was determined as 8 according to the AIC criteria. Not any autocorrelation problem was encountered with the model. The cointegration relationship was performed between the variables, after determining the lag length. In the ARDL test, the cointegration relationship was performed between the variables by testing zero hypothesis (H0=λ1=λ2=λ3=0). The F-statistic value we found as a result of the Bound Testing (ARDL test) is seen higher than the upper critical value indicated by Pesaran (2001). While this result shows us that the H0 hypothesis is refused, and therefore, it allows us to express the cointegration relationship and/or a long-run relationship between the CPI, UR and M2 variables. The test results of long-run cointegration relationship are shown in Table 2 (the Eviews 7.0 and Microfit econometry programs were used in the model forecast).

Table 2: Test Results of Long-Run Cointegration Relationship

Model	k	F-statistic	Lag Length	Existence of Cointegration Relationship
FCPI (lnCPI │ InUR, lnM2)	2	6,08	8	YES
Lower and Upper Critical Values				
Pesaran: 4.87 - 5.85				
Narayan: 5.24 - 6.30				

The maximum lag length was taken as 8 and AIC and SC criteria were discussed together in determining the optimal lag length.

There is not any series correlation of the error term up to 8 delays according to Breusch-Godfrey Series and Correlation LM Test statistic.

The lower and upper critical limit values were considered in Pesaran (2001) Table case (III) and Narayan (2005) Table case (III) in %5 significance level.

5.3. Ardl model forecast (forecast of short-run and long-run perıod relationship)

The suitable model and parameter forecast representing the short-run and long-run relationships between the variables are discussed. The cointegration relationship was revealed between the lnCPI, InUR and lnM2 variables and existence of a long-run relationship was evaluated between the variables as a result of the Wald test (F-statistic) (Microfit econometry program was used in the ARDL model forecast). The AIC criteria were considered in determining the lag length of ARDL model. The test results belonging to the ARDL (1.0.0) model given by the most suitable lag length (lag 2) are shown in Table 3 as a result of the Microfit analysis: The long-run and short-run test results are given in Table 4 and Table 5, respectively.

Table 3, Forecast Results of ARDL (1.0.0) Model

Model: FCPI(lnCPI ǀ InUR, lnM2)			
Model Specification: ARDL (1.0.0)			
Dependent Variable: lnCPI			
Variables	Coefficient	Standard Error	t-statistic [Probe]
lnCPI (-1)	0.41422	0.13566	3.0535 [0.004]***
InUR	0.01171	0.01377	0.8504 [0.400]
lnM2	0.03948	0.01928	2.0472 [0.047]**
C	1.9987	0.64284	3.1092 [0.003]***
TREND	0.00990	0.00256	3.8556 [0.000]***

Recognitory Test Results	
R2:	0.99861
Adjusted R-squared:	0.99849
F-statistic:	8101.1 [0.000]***
Breusch-Godfrey LM Autocorrelation Test	7.4075 [0.116]
White Heteroskedasticity Test	0.10761 [0.743]
Jarque-Bera Normality Test	0.32987 [0.848]
Ramsey-Reset Test	2.2764 [0.131]

The lag length was determined as 2 according to the AIC in the ARDL model.

The numbers found in the brackets show the probe possibility values. The ***, ** and * signs show the significance levels respectively.

When we consider Table 3, it shows that there is not an autocorrelation problem with our model, as the probe possibility result of Breusch-Godfrey LM Autocorrelation Test is 0.116 at 5% significance level. On the other hand, as the probe possibility result of the White Heteroskedasticity Test used in measuring changing variance problem is 0.743. It reveals that there is not a changing variance problem with our model. The possibility value was found as 0.848 according to Jarque Bera test examining the normality under the null hypothesis distributed normally and alternative hypothesis not distributed normally in terms of the error term and therefore, the hypothesis was not refused and errors were accepted to be distributed normally. As the probe possibility result of the Jarque-Bera Normality Test is 0.848. It gives us that the error terms distributed normally. The Ramsey-Reset Test is implemented to test the deficiency in a variable to be found in the model or accuracy of a model (model specification) revealed. As the probe possibility result belonging to the Ramsey-Reset Test is 0.131 in our model, it gives us the result that the model specification is accurate in the model or there is not a variable not included in the model or forgot. As the R2 value is 0.99861 in our model, it shows the explanatory power of our model is high and as the probe possibility belonging to the F-statistic value is 0.000. It reveals that our model is significant in the aggregate.

A 1% increase occurring in the CPI increases the CPI at the rate of 0.41% for the following period. And, a 1% increase occurring in the money supply (M2) increases the CPI at the rate of 0.04% approximately, as another result 0.04% by Table 3.

Table 4. Long-run Test Results of ARDL (1.0.0) Model

Model: FCPI(lnCPI │ InUR, lnM2)			
Model Specification: ARDL (1.0.0)			
Dependent Variable: lnCPI			
Variables	Coefficient	Standard Error	t-statistic [Probe]
InUR	0.019996	0.022355	0.89448 [0.376]
lnM2	0.067408	0.032674	2.0630 [0.045]**
C	3,4120	0.61995	5.5037 [0.000]***
TREND	0.016901	0.0013108	000]***

The numbers found in the brackets show the probe possibility values.
The ***, ** and * signs show 1%, 5% and 10% significance levels respectively.

When we consider Table 4, while the coefficient belonging to the InUR variable is shown as 0.019996, the coefficient belonging to the lnM2 is 0.067408 in the long-run test results of ARDL (1.0.0) model. Table 4 shows us that the lnM2 variable is statistically significant at 5% significance level. This result reveals that there is a positive and statistically significant relationship suggested by the literature between the lnM2 and lnCPI at 5% significance level in terms of the long-run. Therefore, a %1 increase occurring in the M2 (money supply) causes an increase in the rate of %0.067408 in the CPI. Another result obtained by Table 4 is that the InUR variable is statistically insignificant in the long-run. Moreover, the coefficient value (0.019996) showing the relationship between the InUR and lnCPI is seen that it is not negative, as suggested by the literature.

Table 5. Short-run Test Results of ARDL (1.0.0) Model

Model: FCPI(lnCPI ǀ InUR, lnM2)			
Model Specification: ARDL (1.0.0)			
Dependent Variable: lnCPI			
Variables	Coefficient	Standard Error	t-statistic [Probe]
dInUR	0.011713	0.013773	0.85043 [0.400]
dlnM2	0.039486	0.019288	2.0472 [0.047]**
dC	1.9987	0.64284	3.1092 [0.003]***
dTREND	0.0099004	0.0025678	3.8556 [0.000]***
ECM(-1)	-0.58578	0.13566	-4.3181 [0.000]***
Recognitory Test Results			
R2:		0.30725	
Adjusted R-squared:		0.24567	
F-statistic:		4.9896 [0.002]***	
D.W-statistic:		1,8616	

The numbers found in the brackets show the probe possibility values.
The ***, ** and * signs show 1%, 5% and 10% significance levels respectively.

When we consider Table 5, while the coefficient belonging to the InUR variable is shown as 0.011713, the coefficient belonging to the lnM2 is 0.039486 in the short-run test results of ARDL (1.0.0) model. Table 5 shows us that the InUR variable is statistically insignificant and lnM2 variable is statistically significant at 5% significance level. Therefore, a %1 increase occurring in the M2 (money supply) causes an increase in the rate of %0.04 in the CPI.

The short-run lnM2 variable is statistically significant. It was positively suggested by the literature at 5% significance level. As it is seen, it is parallel in terms of the long-run according to Table 5.

When we consider the InUR variable in terms of the short-run, it is seen that it is statistically insignificant in parallel with the long-run and not negative suggested by the literature.

On the other hand, the short-run forecast results reveal that the error correction coefficients (ECM(-1)) are statistically significant as expected, its sign is negative as considered and coefficient value is in between 0 and 1 as assumed. Being the ECM(-1) coefficient smaller than 1 shows that the system is in the balance and being its sign – (negative) expresses the reality of being a movement towards the balance again in a case where a deviation occurs in the balance. Being the ECM(-1) coefficient -0.58578 expresses that 58% of the unbalance in the short-run is corrected in 2 periods approximately in the long-run.

Figure 1. CUSUM GRAPH

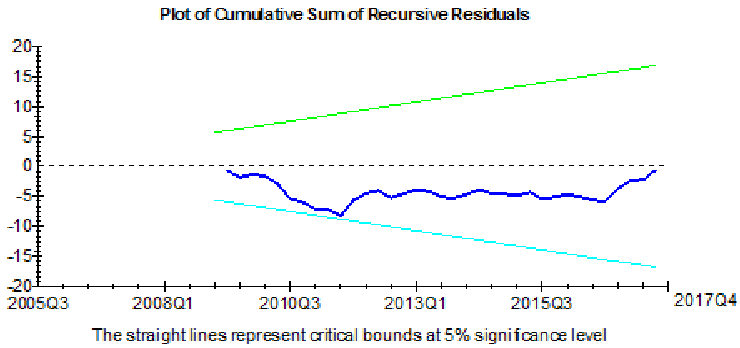
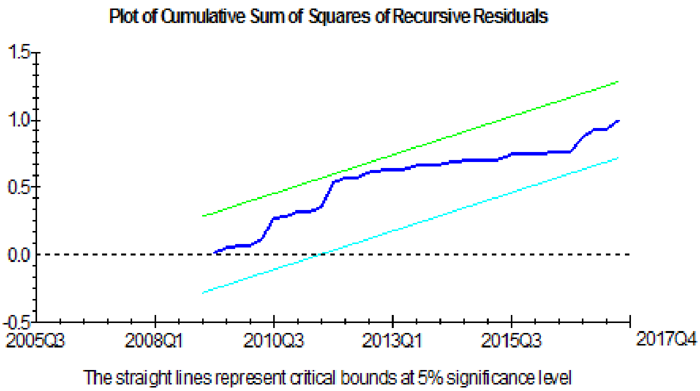


Figure 2. CUSUMQ GRAPH



When we consider the CUSUM graph shown in Figure 1 and CUSUMQ graph shown in Figure 2, we see that the CUSUM and CUSUMQ statistics suggested by Brown et al. (1975) are in the critical limits at 5% significance level. This result shows us that the zero hypotheses expressing the stable coefficients found in the ARDL (1.0.0) model could not be refused.

However, if the CUSUM and CUSUMQ statistics are out of the critical limits, the zero hypotheses expressing the coefficient stability could not be refused (Akel & Gazel, 2014, pp. 36). When we consider Figure 1 and Figure 2, being the CUSUM and CUSUMQ statistics within the limits show that there is not any overflow and structural breakage in the statistics belonging to the variables in the model. In conclusion, it may be expressed that there is a consistent condition in the coefficients belonging to the ARDL (1.0.0) model and model may be forecasted without adding another artificial variable in terms of the long-run.

5.4. Granger causality test

The causality relationship should be revealed between the CPI, UR and M2 variables, after expressing the existence of a long-run relationship (cointegration relationship) between the variables in the model. There should absolutely be a cointegration relationship between the CPI, UR and M2 variables in order to make sense of the Granger causality test n terms of the economics, and therefore, a long-run relationship was found herein. The Granger Causality Test results were given between the CPI, UR and M2 variables in Table 6.

Table 6. Granger Causality Test Results

Variables	Lag length								Result
	1	2	3	4	5	6	7	8	
UR à CPI	-	-	-	-	-	+**	+*	+*	YES
CPI à UR	-	-	-	-	-	-	-	-	NO
M2 à CPI	-	-	-	-	-	-	-	-	NO
CPI à M2	+***	+***	+***	+**	+**	+***	+***	+**	YES
M2 à UR	-	-	-	-	-	-	-	-	NO
UR à M2	-	-	-	-	-	-	-	-	NO

The ***, ** and * signs show 1%, 5% and 10% significance levels respectively.

A one-way causality relationship was determined from the inflation to the money supply according to the Granger Causality Test results in Table 6. This result shows that a change occurring in the inflation causes the changes in the money supply in terms of the long-run. Moreover, the causality test results show that there was a one-way causality relationship from the unemployment to the inflation. However, when we consider Table 6, there was not any causality from the inflation to the unemployment, from the money supply to the inflation, from the money supply to the unemployment and from the unemployment to the money supply. In other words, these conditions cause a change in the inflation as part of the unemployment, in the money supply as part of the inflation, in the money supply as part of the unemployment and in the unemployment as part of the money supply.

Result

The relationship between the inflation and unemployment is one of the important matters discussed in the economic literature for a long time. The most important reason for this condition is to be two main concepts in growing economically both in the unemployment and inflation, reaching to the economic policy targets and increasing the life standards. Especially, while the unemployment protects its existence as an important problem both in developed and developing countries in the present day, we also see that the inflation is one of the main targets for providing the price stability especially in terms of the country's economy. In this context, while the relationship revealed by the Phillips curve makes the inflation targeting in the economy, the arrangements may be made for determining the inflation by benefiting from the Phillips curve and/or by discussing the relationship between the unemployment and inflation.

On the other hand, the countries are seen that they apply the monetary policies in order to provide the price stability in the present day. In other words, the countries perform the interventions by increasing or decreasing the money supply in order to provide the price stability according to the conditions they have in the economy. Increasing or decreasing the money supply by the countries affect the investments and unemployment rates by means of affecting both the prices and interest rates. Therefore, the changes occurring in the money supply are seen that they are effective against the prices and unemployment rates.

In our study, the short-run and long-run relationships revealed by the Phillips curve were discussed to determine whether they were valid by discussing the periods 2005:1 and 2017:4 in Turkey's economy in this context. The effects of changes in both the inflation and unemployment rates were tried to reveal, which occurred in the money supply to the period mentioned in our country. In our study, a long-run relationship was researched between the inflation, unemployment and money supply by using the quarter-period (trimester) data belonging to the periods 2005:1 and 2017:4 for Turkey's economy and the Bound Testing Approach was used for this purpose. On the other hand, the causality was investigated between these three variables and the Granger Causality Test was used.

The existence of cointegration relationship was found between the inflation, unemployment and money supply as a result of the study. A one-way causality was determined to be valid from the unemployment to the inflation at 5% and 10% significance levels as a result of Granger Causality Test performed after revealing the existence of cointegration relationship. The result we obtained shows similarity as a result of the study performed by Atalay, Tugcu and Topcu in 2011 for the G8 countries. On the other hand, a one-way causality was determined from the inflation to the money supply at 1% and 5% significance levels in the study.

While the existence of a negative relationship was expected by the theory forecasted between the inflation and unemployment rate of the study, a positive but statistically insignificant relationship was found in terms of both the short-run and long-run contrary to the theory. This result brings us to the result that the Phillips curve is invalid in terms of Turkey's economy, as it is in the other studies researching the validity of Phillips curve for Turkey's economy. We may state based on this result that the unemployment rate is not a reliable variable in determining the inflation rate for Turkey. The result of our study shows similarity with the results of the study performed by Uysal & Erdoğan in 2003 for the periods 1980 and 1990 for Turkey's economy, except being statistically insignificant of the relationship between the inflation and unemployment in this context.

The ARDL (1.0.0) model obtained as a result of the Bound Testing shows us that the previous period value (CPI (-1)) of inflation has a positive and statistically significant effect on the inflation (CPI). While this result has the inflation expectations for the economy, it also reveals that the value belonging to the previous period of inflation is more reliable and significant variable rather than the unemployment rate. When we consider in this context, we see that the result of our study shows similarity with the results of studies performed by Kuştepeli in 2005 and Hepsağ in 2009 for Turkey's economy.

Another important result obtained as a result of the study was that there was a positive and statistically significant relationship forecasted by both the short-run and long-run theory between the inflation and money supply. While this result has the inflation expectations for the economy, it also reveals that the money supply is more reliable indicator rather than the unemployment rate. An increase in the money supply was revealed that it increased the inflation in almost all the studies revealing the relationship between the inflation and money supply. We may mention in this context that the result obtained in our study showed similarity with the other studies.

In conclusion, the economic policies should be constituted to make previous period inflation rate and money supply the determinant of today's inflation rather than the unemployment rate in the inflation targeting. The intervention in economy by the state with the monetary policy is more significant and consistent in this context. The Central Bank of the Republic of Turkey should change its money supply by the monetary base by keeping the interest rates stable (this variable is extremely effective on the unemployment rate). Especially, when we consider the increases in the inflation rate seen in Turkey in recent years, the monetary policy practice is beneficial to be changed into the money supply by the monetary base, if providing the price stability is targeted in the economy. However, the unemployment should be waited to increase as a result of this policy. Moreover, the role of the CBRT and confidence had in the CBRT take an important place in order to implement an effective monetary policy. Not making another commitment by the CBRT is important to the dependence on the CBRT by standing behind the decisions taken by the CBRT and targeting the inflation decided by the CBRT. A strict fiscal policy should accompany the monetary policy targeted by this practice to reach the result desired in the inflation targeting.

References

Akel, V., & Gazel, S. (2014). Döviz Kurları ile BİST Sanayi Endeksi Arasındaki Eşbütünleşme İlişkisi: Bir ARDL Sınır Testi Yaklaşımı. Erciyes Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi, 44, 23-41.

Akhing, F.W., & Miller, S.M. (1985). The Relationship between Government Growth and Inflation. Journal of Macroeconomics, 7(4), 447-467.

Alavirad, A. (2003). The Effect of Inflation on Government Revenue and Expenditure: The Case of Islamic Republic of Iran. OPEC Review, 27(4), 331-341.

Altay, B., Tuğcu, C.T., & Topcu, M. (2011). İşsizlik ve Enflasyon Oranları Arasındaki Nedensellik İlişkisi: G8 Ülkeleri Örneği. Afyon Kocatepe Üniversitesi, İ.İ.B.F. Dergisi, 13(2), 1-27.

Altıntaş, H., Çetintaş, H., & Taban, S. (2008). Türkiye'de Bütçe Açığı, Parasal Büyüme ve Enflasyon Arasındaki İlişkinin Ekonometrik Analizi: 1992-2006. Anadolu Üniversitesi Sosyal Bilimler Dergisi, 8(2), 185-208.

Arabacı, Ö., & Eryiğit, K. Y. (2012). A Thresold Regression Estimation of Phillips Curve: Turkey Case. Eskişehir Osmangazi Üniversitesi İ.İ.B.F. Dergisi, 7, 29-47.

Ball, L., Mankiw, G., & Romer. D. (1988). The New Keynesian Economics and the Output-Inflation Trade-off. Brookings Papers on Economic Activity, 19(1), 1-65.

Ball, L., & Mankiw, G. (2002). The NAIRU in Theory and Practice. Journal of Economic Perspectives, 16 (4), 115-136.

Bayrak, M., & Kanca, O. (2013). Türkiye'de Phillips Eğrisi Üzerine Bir Uygulama. Eskişehir Osmangazi Üniversitesi İ.İ.B.F. Dergisi, Aralık 2013, 8(3), 97-115.

Barro, R. J. (1977). Unanticipated Money Growth and Unemployment in the United States. The American Economic Review, 67(2), 101-115.

Barro, R. J. (1978). Unanticipated Money, Output, and The Price Level in the United States. The Journal of Political Economy, 86(4), 549-580.

Berentson, A., Menzio, G., & Wright, R. (2011). Inflation and Unemployment in the Long Run. American Economic Review, 101, 371-398.

Bhattarai, K. (2004). Unemployment-Inflation Trade-off in OECD Countries: Lesson from Panel Data and Theories of Unemployment. 58, 93-103, http://www.hull.ac.uk/php/ecskrb/uninfl.pdf.

Brown, R. L., Durbin, J., & Evans, J. M. (1975). Techniques for Testing the Constancy of Regression Relationships over Time. Journal of the Royal Statistical Society: Series B (Methodological), 37(2), 149-192.

Chicheke, A. (2009). Monetary Policy, Inflation, Unemployment and Phillips Curve in South Africa. University of Fort Hare, Department of Economic Faculty of Management and Commerce University of Fort Hare-South Africa, 74-96.

Çatık, A. N., Christopher, M., & Önder, A. Ö. (2008). Relative Price Variability and the Phillips Curve: Evidence from Turkey. International Conference of Emerging Economics Issues in a Globalizing World, May 2008, İzmir.

Darrat, A. F. (1985). Inflation and Federal Budget Deficits: Some Empirical Results. Public Finance Review, 3(2), 206-215.

Dickey, D. A., & Fuller, W. A. (1979). Distribution of the Estimates for Autoregressive Time Series with Unit Root. Journal of American Statitical Association, 74, 427-431, in Griffiths at al. (1993), Learning and Practicing Econometrics, N.Y.: John Wiley& Sons, Inc.

Dickey, D. A., & Fuller, W. A. (1981). Likelihood Ratio Statistics for Autoregressive Time Series with a Unit Root. Econometrica, 49, 1057-1071.

Emsen, Ö. S., Kuşcu, S., & Sarsılmaz, F. (2003). Phillips Eğrisi Analizi ve Geçiş Ekonomilerinden Kırgızistan Üzerine Uygulama. Gazi Üniversitesi İ.İ.B.F. Dergisi, 5(2), 81-99.

Engle, R. F., & Granger, C. W. J. (1987). Co-integration and Error Correction: Representation, Estimation and Testing. Econometrica, 55(2), 251-276.

Espinosa-Vega, M., & Russell, S. (1997). History and Theory of The NAIRU: A Criticial Review. Federal Reserve Bank of Atlanta, Economic Review, 2, 4-25.

Friedman, M. (1968). The Role of Monetary Policy. American Economic Review, 58(1), 1-17.

Friedman, M. (1977). Inflation and Unemployment. The Journal of Political Economy, 85(3), 451-472.

Fountas, S., Lally, B., & Wu, J. (1999). The Relationship between Inflation and Wage Growth in the Irish Economy. Applied Economics Letters, 6(5), 317-321.

Froyen, R. T. (2012). Macroeconomics: Theories and Policies. Pearson Education, 10th Edition, ISBN-10: 0273765981, August 2, 2012

Granger, C. W. J. (1969). Investigating Causal Relations by Econometric Models and Cross-Spectral Methods. Econometrica, 37(3), 424-438.

Granger, C. W. J. (1988). Some Recent Development in a Concept of Causality. Journal of Econometrics, 39(1–2), 199-211.

Gül, E., Kamacı, A., & Konya, S. (2014). Enflasyon ile İşsizlik Arasındaki Nedensellik İlişkisinin Test Edilmesi: Panel Eşbütünleşme ve Nedensellik Analizi. International Conference on Eurasian Economies, 1-3 Haziran 2014, Mekadonya.

Hepsağ, A. (2009). Türkiye'de Enflasyon ile İşsizlik Arasındaki İlişkinin Analizi: Sınır Testi Yaklaşımı. İstanbul Üniversitesi İktisat Fakültesi Mecmuası, 59(1), 169-190, http://dergipark.gov.tr/iu-ifm/issue/798/8709

Herman, E. (2010). Inflation and Unemployment in the Romanian Economy. Annals of University of Petroşani, Economics, 10(2), 157-170, https://www.upet.ro/annals/economics/pdf/2010/20100215.pdf

Johansen, S. (1988). Statistical Analysis of Cointegration Vectors. Journal of Economic Dynamics and Control, 12(2-3), 231-254.

Johansen, S., & Juselius, K. (1990). Maximum Likelihood Estimation and Inference on Cointegration– with Applications to the Demand for Money. Oxford Bulletin of Economics and Statistics, 52(2), 169–210.

Kuştepeli, Y. (2005). A Comprehensive Short-run Analysis of a (possible) Turkish Phillips Curve. Applied Economics, 37(5), 581-591.

Kitova, I. (2007). Inflation, Unemployment, Labor Force Change in European Countries. MPRA (Munich Personal RePEc Achive), 1. January 2007, 1-68, https://mpra.ub.uni-muenchen.de/14557/1/MPRA_paper_14557.pdf

Lipsey, R.G. (1960). The Relation between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom 1862-1957: A Further Analysis. Economica, 27(105), 1-31.

Lucas, R. E. Jr. (1972a). Expectations and the Neutrality of Money. Journal of Economic Theory, 4(2), 103-124.

Lucas, R. E. Jr. (1972b). Econometric Testing of the Natural Rate Hypothesis. in the New Classical Macroeconomics (1992), Volume: I , Chapter: 6, Ed. by K.D. Hoover, Aldershot, Edward Elgar, 123-132

Lucas, R. E. (1973a). Some International Evidence on Output-Inflation Tradeoffs. American Economic Review, 63(3), 326-334.

Lucas, R. E. (1973b). Wage Inflation and the Structure of Regional Unemployment: Comment. Journal of money, Credit and Banking, 5(1), 382-384.

Marcellino, M., & Mizon, E. G. (2001). Small-System modellimg of Real Wages Inflation, Unemployment and Output per Capita in Italy 1970-1994. Journal of Applied Econometrics, 16, 359-370.

Meltzer, A.H. (1989). Monterasity. National Review, 41, 47-48.

Modigliani, F., & Papademos, L.D. (1975). Targets for Monetary Policy. Brookings Papers on Economic Activity, 1, 141-165.

Muth, J. F. (1961). Rational Expectations and the Theory of Price Movements. Econometrica, 29 (3), 315-335.

Nachega, J.C. (2005). Fiscal Dominence and Inflation in the Democratic Republic of the Congo. IMF Working Paper, WP/05/221.

Narayan, P., & Narayan, S. (2004). Estimating Income and Price Elasticities of Imports for Fiji in a Cointegration Framework. Economic Modelling, 22, 423-438.

Narayan, P. K. (2005). The Saving and Investment Nexus for China: Evidence from Cointegration Tests. Applied Economics, 37(17), 1979–1990.

Nwala, K. (2003). Is There still an Unemployment and Inflation Trade-off. International Advances in Economic Research, 168.

Özçelik, Ö., & Uslu, N. (2017). Ekonomik Büyüme, İşsizlik ve Enflasyon Arasındaki İlişkinin VAR Modeli ile Analizi: Türkiye Örneği. EKEV Akademik Dergisi, 69, 31-51.

Özgür, D. B. (2000). An Empirical Approach to Fiscal Defícts and Inflation: Evidence from Turkey, Hazine Müsteşarlığı, Ekonomik Araştırmalar Genel Müdürlüğü: Ankara, 2000.

Pallis, D. (2006). The Trade-off between Inflation and Unemployment in the New European Union Member States. International Research Journal of Finanace and Economics, 1, 80-88.

Parasız, İ. (1998). Makro Ekonomi Teori ve Politika, Ezgi Kitabevi Yayınları, Bursa, 1998.

Parkin, M. (2010). İktisat, Çev (Özcan Uzun ve Serdar Demir ve diğerleri), 9. Baskıdan Çeviri, Akademi Yayıncılık, Ankara, 2010.

Pesaran, M. H., Shin, Y., & Smith, R. J. (2001). Bounds Testing Approaches to the Analysis of Level Relationships. Journal of Applied Econometrics, 16, 289–326. doi:10.1002/jae.616.

Phelps, E. S. (1967). Phillips Curves, Espectations ofIinflation and Optimal Unemployment over time. JSTOR, Economica, New Series, 34(135), 254-281.

Phillips, A. W. (1958). The Relation between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957. Economica, 25(100), 283-299

Phillips, P., & Peron, P. (1988). Testing for a Unit Root in Time Series Regression. Biometrica, 75(2), 335-345.

Samuelson, P. A., & Solow, R. M. (1960). Analytical Aspects of Anti-Inflation Policy. The American Economic Review, 50(2), Papers and Proceedings of the Seventy-Second Annual Meeting of the American Economic Association (May 1960), 177-194.

Sargent, T. J., & Wallace, N. (1973). The Stability of Models of Money and Growth with Perfect Foresight. Econometrica, 41(6), 1043- 1048.

Sargent, T., & Wallace, N. (1975). 'Rational' Expectations, the Optimal Monetary Instrument, and the Optimal Money Supply Rule. Journal of Political Economy, 83(2), 241-254.

Sargent, T. J., & Wallace, N. (1976). Rational Expectations and the Theory of Economic Policy. Journal of Monetary Economics, 2(2), 169-183.

Sargent, T. J., & Wallace, N. (1981). Some Unpleasant Monetarist Arithmetic. Federal Reserve Bank of Minneapolis, Quarterly Review, 5(3), 1-17.

Setterfield, M., & Lebland, K. (2003). The Phillips Curve and USA Macroeconomic Performance during the 1990s. International Review of Applied Economics, 4, 361-376.

Schreiber, S., Wolters, J. (2007). The Long-run Phillips Curve Revisited: Is the NAIRU Framework Data-Consistent? Journal of Macroeconomics, 29(2), 355-367.

Snowdon, B., ve Vane, H. R. (2005). Modern Macroeconomics: Its Origins, Development and Current State. Edward Elgar, New Edition Edition, 24 Feb. 2005, ISBN-10: 1845422082.

Şentürk, M., ve Akbaş, Y. E. (2014). İşsizlik, Enflasyon ve Ekonomik Büyüme Arasındaki Karşılıklı İlişkinin Değerlendirilmesi: Türkiye Örneği. Journal of Yaşar University, 9, 5820-5832.

Tajra, H. F. (1999). Phillips Curve in Brazilian Economy after Real Plan. The George Washington University, The Minevra Program, 8-45, http://www.gwu.edu/~ibi/minerva/Fall1999/Tajra.Haroldo.pdf.

Tekin-Koru, A., & Özmen, E. (2003). Budget Beficits, Money Growth and Inflation: The Turkish Evidence. Applied Economics, 35(5), 591-596.

Turner, P., & Benavides, G. (2001). The Demand for Money and Inflation in Mexico 1980-1999: Implications for Stability and Real Seigniorage Revenues. Applied Economics Letters, 8(12), 775-778.

TÜİK, (2017), Temel İstatistikler, Tüketici Fiyat Endeksleri, 2017, http://www.tuik.gov.tr/PreTablo.do?alt_id=1014

Türkyılmaz, S., & Özer, M. (2008). A Time Series Analysis of Turkish Unemployment. 2(1), 175-189, http://mtol.teilar.gr/vol2_2008/turkyilmaz_ozer_175_189.pdf

Uysal, D., & Erdoğan S. (2003). Enflasyon ile İşsizlik Oranı Arasındaki İlişki ve Türkiye Örneği (1980-2002). Selçuk Üniversitesi İ.İ.B.F. Sosyal ve Ekonomik Araştırmalar Dergisi, 3(6), 35-47.

PART IV.

CHAP 3.

AN EVALUATION OF INFLATION EXPECTIONS SURVEY IN TURKEY

Bige KÜÇÜKEFE[*]

1. Introduction

Expectations, especially inflation expectations, play a key role in understanding economic functioning in macroeconomic theory. In price formation, part of the change in price level is forwarded to expectations. Expectation surveys can provide insight into future price changes. Firms also want to know future prices to provide firm investment and pricing decisions correctly. The monetary policy is determined by the prospects for the future economic situation of the Central Banks. For this reason, it is necessary to predict the future of the economy as accurately as possible.

Our study explores the performance of expectation surveys to forecast short-term inflation in Turkey. Survey-based methods emerged as a useful tool to forecast future inflation for which a broad suite of models that include univariate time series ARIMA models, regressions from the Phillips curve and the term structure of interest rates. The literature is rich with survey-based inflation forecasts (Forsells and Kenny, 2004; Mestre, 2007; Bharat, 2015).

The comparison across different forecasting models is difficult due to differences in data, sample periods and country-specific conditions. A milestone work by Atkeson and Ohanian (2001) argued that the accuracy of forecasting performance of a series of Phillips curve models did not outperform a naive moving average model. However, a later study by Stock and Watson (2007) found that the findings of Atkeson and Ohanian were specific to the period 1984-1999 and Phillips curve models performed relatively better for the period 1970-1983. Similarly, the poor reputation of the forecast surveys in 1980s (Thomas, 1999) was attributed to the unique events during the sample period (Croushore, 2010).

Several studies highlighted the superior performance of expectation surveys for forecasting inflation. In particular, Grothe and Meyler (2015) argued that short-term inflation expectations for the euro area and the United States were informative predictors of future inflation. Similarly, Ang et al. (2007) found that inflation expectations from survey data outperform the conventional models that include time-series ARIMA and regressions using real activity data motivated

* Dr., Namik Kemal University, bkucukefe@nku.edu.tr

from the Phillips curve. A similar study by Gil-Alana et al. (2012) revealed that survey-based expectations outperform standard time series models in U.S. quarterly inflation out-of-sample prediction. Furthermore, Altug and Cakmakli (2016) argued that combining data from survey of inflation expectations improved their model performance.

This paper examines the survey of inflation expectations organized by the Central Bank of Turkey (CBT). We compare the forecasting performance of the survey results with a univariate model (TBATS) which is an improved form of ARMA model and incorporates Box-Cox transformations and Fourier representations with time-varying coefficients. Graphical representation with Empirical Cumulative Distribution Functions (ECDF) reveals that the CBT surveys outperform the TBATS model. In addition, Root Mean Square Error (RMSE) and box plot display of forecast errors are provided to further examine the forcasting performances. The relatively small dataset of the forecasting period makes it difficult to identify performance differences between the forecasting methods. We solve the small dataset problem by producing bootstrap replicas with replacement. The results indicate that the CBT surveys outperform the TBATS model in the monthly CPI forecast for the period 2015/1-2017/6 in Turkey.

This paper is organized as follows: Section 2 describes the data used in our study. Section 3 presents the methodology for comparing the accuracy of forecasting performances by the CBT survey and the TBATS model. Then Section 4 gives the results of four different accuracy performance comparison methods. Finally, Section 5 concludes.

2. Data

The Central Bank of Turkey (CBT) conducts a survey each month to monitor the expectations of experts from financial and real sectors. The questionnaire includes short-term inflation forecasts (current month, next month and two-month ahead) in addition to many other expectations on economic variables such as exchange and interest rates. The survey reports also contain summary statistics that include mod, median, minimum, arithmetic mean, maximum and minimum values.

We obtained the survey of expectations data from the CBT and the Consumer Prices Inflation (CPI) monthly data from TURKSTAT. The data covers the period from 2001/8 to 2017/9 except the next month CPI forecast which includes data from 2006/4 to 2017/9. Fig.1 shows the monthly CPI from 2001 to 2017 in Turkey. High levels of monthly CPI until 2004 are followed by relatively stable inflation levels below 1 % before starting to climb again in 2017 with occasional peaks coinciding with domestic and global developments.

Fig. 1: Monthly Consumer Price Inflation (CPI) in Turkey (2001/8 - 2017/10)

3. Methodology

We first compute the forecast error of the CBT survey of inflation expectations from 2001/8 to 2017/9 for the current month and 2-months ahead survey data and from 2006/4 to 2017/9 for the next month survey data. We define the forecast error (FE) as the absolute value of difference between the actual and the forecast value.

$$FE = |\pi - f| \tag{1}$$

where π is monthly actual CPI and f is the forecast value.

Furthermore, the Empirical Cumulative Distribution Function (ECDF) of the forecast error is obtained for each horizon. ECDF is defined as:

$$ECDF(x) = \frac{\text{number of elements in the sample} \leq x}{N} \tag{2}$$

where N is the total number of elements in the sample.

ECDF asymptotically approaches to 0 and 1 changing by the value of 1/N at each of the N data points. We employ ECDF to compare forecasting performances of the CBT Surveys and a univariate model for short-term inflation forecasting.

We then compare forecast errors of the CBT survey data and a univariate model (TBATS) introduced by de Livera et al. (2011). TBATS uses a state space model and incorporates Box-Cox transformations, Fourier representations with time varying coefficients, and ARMA error correction. By employing TBATS, we obtain forecasts for 3 horizons (current month, next month and 2-months ahead) for the period 2015/1-2017/6 by using R, a statistical software, and 'forecast' library v8.3 developed by Rob Hyndman for displaying and analysing univariate time series forecasts including exponential smoothing via state space models and automatic ARIMA modelling.

Root Mean Square Error (RMSE) is a common method for comparing different model performances. RMSE for the CPI forecasting model is defined by:

$$RMSE = \frac{\sqrt{\sum_{i=1}^{N}(\pi_i \text{-} f_i)^2}}{N} \tag{3}$$

where π is actual CPI, f is forecast value and N is the total number of forecasts.

The period for which we obtain monthly forecasts is 30 months. With a relatively small size of data set (30), it is difficult to produce a graph that adequately represents forecasting performances of the CBT survey and the TBATS model. Hence, we computed the mean values of the bootstrap replicas generated by drawing N data points with replacement from the original forecast dataset. The bootstrapping process generates a sufficiently large forecast dataset which can be used to compare performances of the forecasting models on the same plot. We set the total number of bootstrap replicas as 10000 and calculated the mean of each replica. The resultant dataset is then represented as an ECDF to illustrate difference in forecasting performances of the CBT survey and TBATS model.

4. Results

We first compute the ECDF of the forecast errors from 2001/8 to 2017/10 for the CBT survey forecasts. It is evident from Fig. 2 that forecast error increases with forecast horizon. From the figure, forecast error for the current month inflation estimate is below 0.5 with 60% probability, while the probability drops approximately to 58% and 55% for the next month and 2-months ahead forecast horizons respectively for the same forecast error. The gap notably increases and the forecast error stays approximately below 0.75, 0.85 and 0.90 with 80% probability for the current month, next month and 2-months ahead forecasts, respectively. Similarly, the forecast error is below 1.0 with 95% probability for horizon-1. The same performance is achieved with 90% and 88% probability for the other two horizons.

The CPI monthly forecasts for the period 2015/1-2017/6 from the CBT survey and the TBATS model are used to compare forecasting accuracies. Fig. 3 depicts the ECDF of the CBT Survey and TBATS model forecast errors for 90 estimates (30 for each horizon). From the figure, the CBT survey performs better than the TBATS model but the difference is not significant.

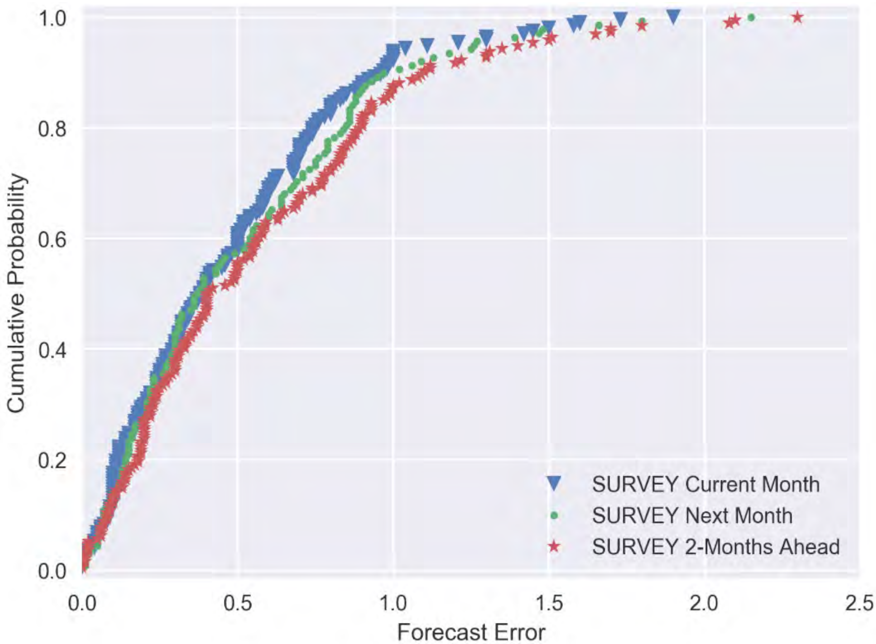


Fig. 2: Forecast error ECDF for the CBT survey of inflation expectations (2001-2017)

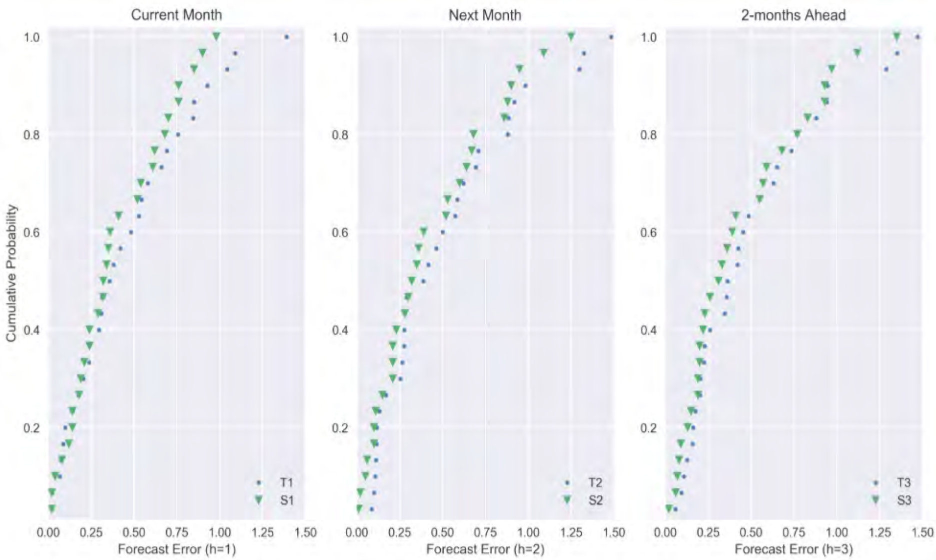


Fig. 3: Forecast error ECDF for CBT Survey (S) and TBATS model (T) forecasts (2015/1-2017/6)

RMSE comparison between two methods are given in Table 1. At all horizons, the CBT survey outperforms the TBATS model in RMSE terms. RMSE value for the current month forecasts is 0.234 from the CBT survey and 0.337 from the TBATS model. The CBT survey performs better for the other two horizons too. Although RMSE comparison indicates that the CBT surveys notably beat the TBATS model, ECDF comparison in Fig.3 does not reveal the superiority we find with RMSE.

Inflation Forecast Method	ROOT MEAN SQUARE ERROR (RMSE)		
	Current Month	Next Month	2-Montsh Ahead
CBT Survey	0.234	0.304	0.317
TBATS Model	0.337	0.414	0.401

Table 1: Inflation Forecast Method's RMSE

The box plot (a.k.a. box and whisker diagram) is a tool in descriptive statistics to display distribution of sample data by minimum, first quantile, media, third quantile, and maximum values. It can give information about how two data set are different. Fig. 4 shows the box plot graphic for forecast errors of the CBT survey and TBATS model forecasts. Lower quantiles (25%) do not indicate a better performance for any model but the median (50%) and upper quantile (75%) support the RMSE findings that the CBT survey performs better than the TBATS model. Maximum forecast error of the current month forecasts for the CBT survey and TBATS models are 1.4 and 0.99, respectively.

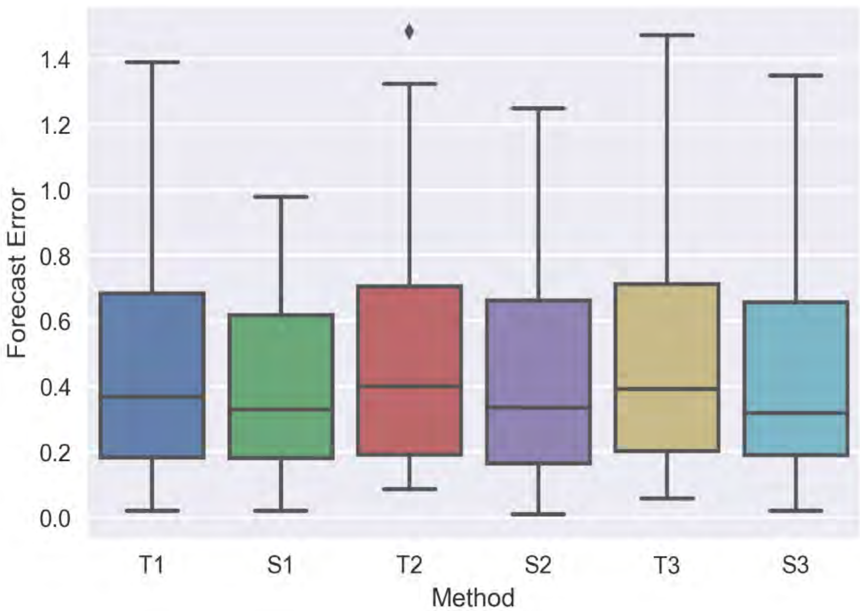


Fig. 4: Box plot comparison of the CBT Survey (S) and TBATS model (T) forecast errors (2015/1-2017/6). Numbers next to T and S denote the forecast horizon (1: current month, 2: next month, 3: two-months ahead)

Our final forecasting performance comparison tool involves producing bootstrap replicas with replacement in order to deal with the small sample size problem of the forecast error data set which has 30 records only. 10000 bootstrap replicas with replacement are produced from the forecast error data set. Then we compute the mean of each bootstrap replica and plot the ECDF as shown in Fig. 5 from which it is evident that the CBT survey performs better than the TBATS model. From the figure, with 80% probability the mean of forecast error of the CBT survey is approximately less than 0.44, 0.48 and 0.48 for the current month, next month and 2-months ahead forecasts, respectively. On the other hand, the TBATS model achieves the same forecast error performances with approximately 40% probability for the respective forecast horizons.

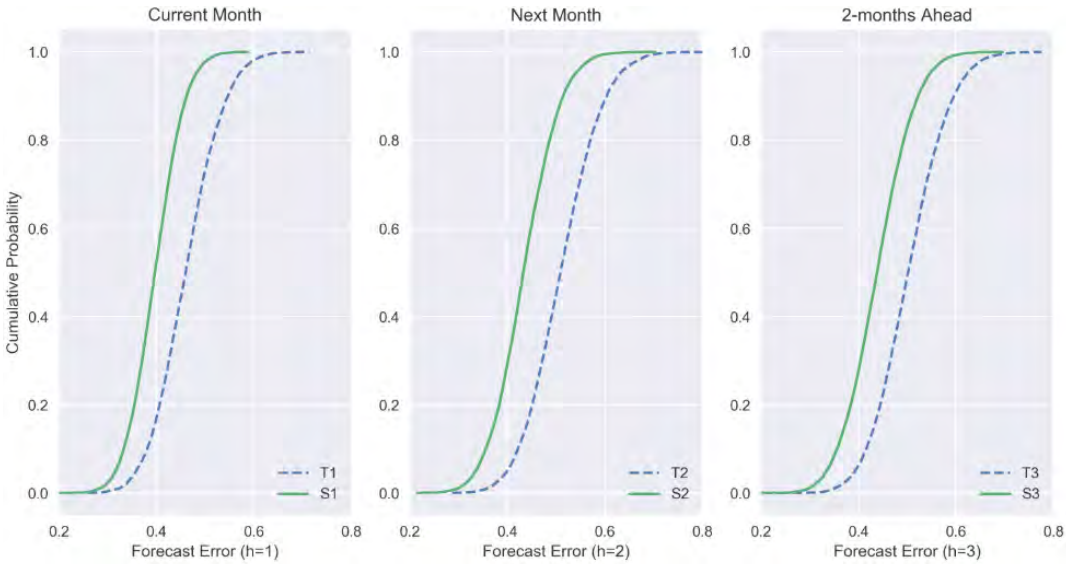


Fig. 5: ECDF of bootstrap replicas with replacement of the CBT Survey (S) and TBATS model (T) forecast errors (2015/1-2017/6). Numbers next to T and S denote forecast horizon in months.

5. Conclusion

To determine monetary policy decisions under the structure of the economy, and to be able to provide firm investment and pricing decisions correctly, it is necessary to predict the future of the economy as accurately as possible. For this purpose, inflation forecasts use a variety of forecasting models ranging from time series models to survey-based models. We examined forecasting performance of the CBT surveys by comparing their accuracy with a univariate time series forecasting model (TBATS) which is an improved form of ARMA model and incorporates Box-Cox transformations and Fourier representations with time-varying coefficients. Forecast horizons are the current month, next month and 2-months ahead for the 30-months period from 2015/1 to 2017/6 in Turkey. We employed four comparison methods to evaluate the forecasting performance at three horizons: ECDF of the forecast errors, RMSE, box plot graph, and ECDF of bootstrap replicas with replacement of the forecast errors. Due to the small number of sample points, ECDF of the forecast errors indicates a slightly better accuracy of the CBT survey over the TBATS model. On the other hand, the RMSE and the box plot graph comparisons reveal the significant performance of the CBT survey. Finally, ECDF of bootstrap replicas with replacement of the forecast errors indicates that the CBT survey clearly outperforms the TBATS model forecasts for the studied period in Turkey.

References

Altug, S., & Çakmakli, C. (2016). Forecasting inflation using survey expectations and target inflation: Evidence for Brazil and Turkey. International Journal of Forecasting, 32(1), 138–153. https://doi.org/10.1016/j.ijforecast.2015.03.010

Atkeson, A., & Ohanian, L. E. (2001). Are Phillips Curves Useful for Forecasting Inflation? Federal Reserve Bank of Minneapolis Quarterly Review, 25(1), 2–11. https://doi.org/Article

Ang, A., Bekaert, G., & Wei, M. (2007). Do macro variables, asset markets, or surveys forecast inflation better? Journal of Monetary Economics, 54(4), 1163–1212. https://doi.org/10.1016/j.jmoneco.2006.04.006

Croushore, D. (2010). An evaluation of inflation forecasts from surveys using real-time data. The BE Journal of Macroeconomics. https://doi.org/10.2202/1935-1690.1677

Forsells M, Kenny G. 2004. The rationality of consumers' inflation expectations: survey based evidence for the euro area. Journal of Business Cycle Measurement and Analysis, 1, 13–41.

Gil-Alana, L., Moreno, A., & de Gracia, F. (2012). Exploring Survey-Based Inflation Forecasts. Journal of Forecasting, 31(6), 524–539. https://doi.org/10.1002/for.1235

Mestre R. 2007. Are survey-based inflation expectations in the euro area informative? Working Paper 721, European Central Bank.

de Livera, A. M., Hyndman, R. J., & Snyder, R. D. (2011). Forecasting time series with complex seasonal patterns using exponential smoothing. Journal of the American Statistical Association, 106 (496), 1513–1527. https://doi.org/10.1198/jasa.2011.tm09771

Stock, J. H., & Watson, M. W. (2007). Why has U.S. inflation become harder to forecast? Journal of Money, Credit and Banking, 39, 3–33. https://doi.org/10.1111/j.1538-4616.2007.00014.x

Thomas, Lloyd B., Jr. (1999) "Survey Measures of Expected U.S. Inflation," Journal of Economic Perspectives, 13 (Fall 1999), 125–144.

Trehan, B. (2015). Survey measures of expected inflation and the inflation process. Journal of Money, Credit and Banking, 47(1), 207–222. https://doi.org/10.1111/jmcb.12174

PART IV.
CHAP 4.

MICRO AND MACRO PERSPECTIVE OVERVIEW OF RATIONAL EXPECTATIONS THEOREM*

*Aslıhan NAKİBOĞLU**, Merve LEVENT****

1. Emergence Of Rational Expectations Theory

One of the new solutions proposed by the Freidman and students in Chicago University to reform the conventional quantity theorem and solve the inflation problem is the rational expectations theory (http://www.canaktan.org , accessed on 02.04.2017). Early studies began in the 1930s with the Stockholm school of expectations. J. Muth continued the understanding of this school and introduced the rational expectations hypothesis to the world of science with his article published in 1961. Before Muth, economists were averaging some of the current and future prices to estimate future prices. This method was actually used only because it was reasonable. In fact, the analysis on how the average is selected was not clear and this method was based on a solid ground". (Erim, 2007: 436). In addition, Muth sought to prove future estimations of individuals and those derived from the economic theory would be the same. This structure became the basis for rational expectations. (Erim, 2007: 250)

Thus Rational Expectations Theory founded by John F. Muth emerged as a concept that accepts the fundamental objectives of conventional economic theory and it has been included in economic theories in the end of 1960s. According to Muth, it is important to understand how to follow this path and how to combine these paths to predict future conditions (http://kisi.deu.edu.tr , access date 28.03.2017).

According to Muth, expectations should be the same as predictions derived from the relevant economic models in economic theory. For this reason it would not be wrong to sat that the expectations created by economic units are rational. Muth proves the rationality of the expectations with the following sentence: "If predictions based on economic theory were more accurate

* This article has 18% similarity with literature and 4% similarity with no literature in the Ithenticate report.
** Asst. Prof., Ömer Halisdemir University, Faculty of Economics and Administrative Sciences, Department of Economics History of Economics USA, anakiboglu@hotmail.com
*** Expert, Ömer Halisdemir University, Faculty of Economics and Administrative Sciences, Department of Economics, mervee.levent@hotmail.com

than the expectations of the forecasting firms, economists could generate great profits by selling the predictions they had obtained" (Uygur, 1983: 13).

In the rational expectations hypothesis, individuals are making predictions in accordance with current conditions, by using data from the past and present periods, and contemplating on how they will evaluate the information at hand. For example, investors decide to sell stocks in their possession when they anticipate decline in the prices and thus, the price of the stock in question declines (Kati, 2014: 31). In accordance with this forecast, inflation forecast will be determined as adjustable ir variable and it will be possible to make predictions on all variables causing inflation. Thus, price expectations will reflect the current inflation practice the most effective way (Tunay, 2010: 23).

While the theory of rational expectancies affects the general level of prices in the short and long term at monetary policy side, it may have a negative effect on the long term employment and production at fiscal policy side. This is why investment spending or a decrease in imports and a slight increase in state expenditures decline at the least. This results in a decrease in national income and employment level (http://kisi.deu.edu.tr , access date 28.03.2017).

Accordingly, we can show the rational expectations theory as follows:

$$\mathbf{Yt} = \alpha_0+\alpha_1\mathbf{Y}_{t-1}+\alpha_2\mathbf{X}_{t\ -1}+\alpha_3\mathbf{Z}_{t-1}+\mathbf{Ut}$$

Y, an economic variable in the formula, indicates that the past period of the value of the period "t" is determined by the past period values of the 2 variables (X and Z). The term "Yt" indicates mathematical expectation of Yt. ‘' Yt-1 '' is parallel to past periods '' Xt-1 '' and '' Zt-1 ''. Their values are known during the period "t-1". The value of '' Ut '' is known at the end of '' t '' period. Therefore, the estimator must shape at the end of period '' t-1 '' while calculating the expectation related with respective values. This means:

$$\mathbf{E}_{t-1}\mathbf{(Yt)} = \alpha_0+\alpha_1\mathbf{Y}_{t-1}+\alpha_2\mathbf{X}_{t-1}+\alpha_3\mathbf{Z}_{t-1}+\mathbf{E}_{t-1}\mathbf{(Ut)}$$

Here Et-1 (Ut) refers to the value expected within the framework of probability based on the information available after the period t-1 that belongs to Ut. The best estimation that will reveal UT is based on using average value of “0”. This calculates the expected value of Y with the following formula:

$$\mathbf{E}_{t-1}\mathbf{(Yt)} = \alpha_0+\alpha_1\mathbf{Y}_{t-1}+\alpha_2\mathbf{X}_{t-1}+\alpha_3\mathbf{Z}_{t-1}$$

Thus, as Muth points out, rational expectations should be established in the same process that creates the variables to be predicted (Islatince, 2002: 18.19).

2. Macro And Micro Indicators in the Light Of Rational Expectations

2.1. Unemployment

effects of rational expectations on unemployment arise from total demand and supply relations in accordance with the New Conventional economics in consideration of rational expectations. Price level expected by a rational estimator when all conditions are met will be as follows:

$$P^E_t = E\,(P \mid H_{t-1})$$

In the equation above, Ht-1 indicates the structure of the economic model, value of external variables and past values of internal variables. Rational expectations can also be expressed in the following way:

$$P^E_t = P_t + \epsilon_t$$

It can be stated based on the aforementioned equation that it takes a different form than the result which normally occurs with a difference of a random error unrelated to the information set in t-1. This reveals that the New Conventionalists do not anticipate that the unemployment will be fixed at natural ratio, unless it is a random error. Total demand is indicated in the model as follows:

$$y^d_t = A + \alpha\,[\,M_t - E_{t-1} P_t\,] + \lambda_t$$

The term expectation in the equation above represents the anticipated price of the expectation at t-1 period. Changes in (M) base are consistent with the changes at price level. The term [M t – E t-1 P t] indicates an unexpected movement in the money stock. When the increase in money supply is higher than (Ep) increase, an increase will be observed in real income with MV=PY equation. While an increase is expected in M, Ep will increase equally, and there will be no effect on real income and expenditure. The total supply curve is shown as follows:

$$y = y_N + \tau\,(1\text{-}v)\,(\,P - P^E) + \epsilon$$

The equation above will be written as follows to find the relationship between natural unemployment and existing unemployment:

$$U = U_N - \tau\,(1\text{-}v)\,(\,P - P^E) + \epsilon$$

The realization of price expectations will ensure that the level of unemployment declines to the natural level. However, as the general price level change and the relative price change can not be distinguished, they accept that there will be unemployment and fluctuations in production. (Pehlivan, 2011: 132-133).

2.2. Inflation

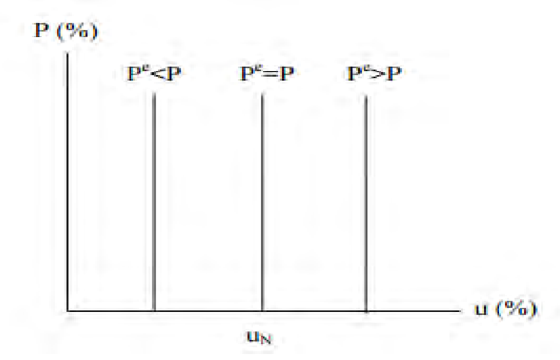
According to the rational expectations theory, people will immediately react to developments that may lead to deflation in the economy, leading to continuity of inflation. For example, transfer payments with unidentified source, social investments, populist policies will increase the individuals' expectation of inflation. As the central bank accelerates monetary growth, the savers will demand higher interest rates. While the currency market is changing to reduce the value of the country's money, the workers will find their salaries low and the employers will fulfil such demands thereof. Thus, groups will prepare inflation all together. Therefore, founders of the rational expectations theory recommend limitation of the growth rate in money supply; higher interest rates; placing more trust in market mechanism and reduction of public expenditures while combatting inflation. (Özbilen, 2016: 417).

In this context, economic policies should be applied with focus on "stabilization" rather than attributing "active" nature in response to any individual movements that may lead to inflation. Based on this approach, the government should only determine policies and the individuals should be able to determine what possibilities are appropriate for them and shape their expectations accordingly (Tiryaki, 2012: 9).

2.3. Phillips Curve Model

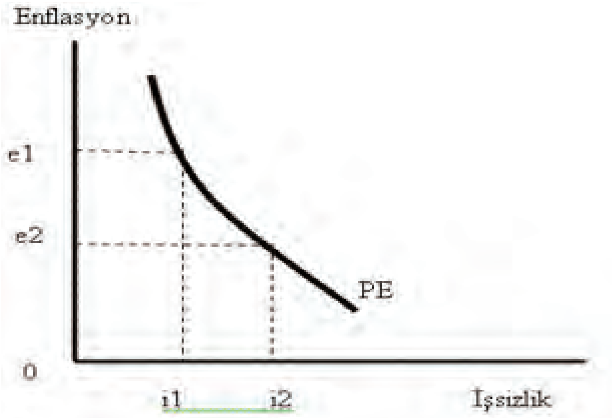
In Rational Expectations hypothesis, the Philips curve will always be parallel to the vertical axis as possible errors that individuals can make with respect to inflation expectations are random. And the error in these expectations will only shift curves.

Figure 1: Phillips Curves within the Framework of Rational Expectations



Source: (Altay, Tuğcu and Topçu, 2011: 8)

Philips curve analysis suggested and developed by A.W. Phillips explains the inverse proportion between inflation and unemployment in economies. This ratio can be defined as follows:



There is inflation on the vertical side and unemployment on the horizontal side. According to the Phillips curve analysis, decline of inflation from e1 to e2 causes unemployment to rise from i1 to i2. Today, this approach proves to be correct in the short term but it lost its overall validity in the long term. (http://www.mahfiegilmez.com access date 10.04.2017).

In other words, Phillips Curve Model function extended with rational expectations is as follows:

$$\pi - \pi^e = b\left(\frac{1}{U_N - U}\right) \tag{1}$$

Equation (1) explains the inverse correlation between inflation and unemployment. If an unexpected inflation increase occurs, economic units will make a mistake about expectation which, in turn, will lead to overproduction and supply surplus. This situation causes the total demand to decline below total supply and unemployment increases (Tunay, 2010: 26).

2.4. Solution of Cagan Model Based on Rational Expectations Theory

In his studies about Cagan model, Thomas Sargent suggested that Cagan model should offer a solution based on the rational expectation and presented re-anticipation opportunity for economies covered in his study.

Cagan's inflation model is stated as follows:

$$m_t - p_t = \gamma + \alpha\Delta p^e_{t+1} + u_t \tag{1}$$

Rational expectations have a mechanism for creating functional expectation by using all the data. Therefore, it is important to estimate Y and slope coefficient in this model. In broader sense, α is the coefficient indicating the relationship between expected inflation and money demand. Thus, the expected inflation table can be shown as follows:

$$\Delta p_{t+1}^{e} = E\left(\Delta p_{t+1} \middle| I_t\right) \qquad 2$$

Another expression of this equation in the literature is as follows:

$$\Delta p_{t+1}^{e} = E_t \Delta p_{t+1} \qquad 3$$

The equation in the combination of equation no. 1 and 3 is as follows:

$$m_t - p_t = \gamma + \alpha E_t \Delta p_{t+1} + u_t \qquad 4$$

Cagan inflation model is shaped using the basic inflation model no. 4 written with rational expectations, and the model resolved according to the rational expectant is as follows:

$$m_t - p_t = \beta_0 + \beta_1 m_{t-1} - \alpha p_t + \beta_2 e_t + u_t \qquad 5$$

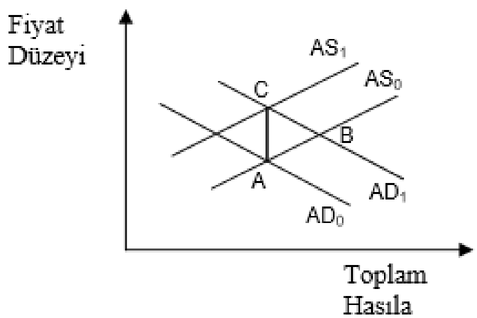
In model no (5),

m_t ve p_t is representation of error term having an average of zero and variance of one that indicates logarithm of general level between money stock and prices , and random shocks in the money supply model of e-t (Yurdakul and Özcan, 2014: 316-317).

2.5. Price

Policy inefficiency and rationality assumptions support the belief that it is difficult to divert the economic activity volume from its natural level and therefore there will be no political economic fluctuations. This can be demonstrated with the following figure:

Figure 2: Policy Inefficiency



Source: Cinko L. (2005), '' Modern Political Conjuncture Movements Theory: Rasyonel Beklentileri İçeren Politik Konjonktür Hareketleri", Sosyal Bilimler Enstitüsü Dergisi, Issue 19.

In figure 2 where horizontal level represents total amount of the product and vertical level represents general level of prices, ADo curve shifts to the right and forms AD1 position when the central bank increases money supply. The equilibrium point shifts from A to B. In the case of rational expectation validity, individuals re-adjust their wage or employment levels by calculating that AD curve shifted to the right side. This behaviour shifts the ASo curve to the left, brings it to AS1 position and shifts equilibrium point from B to C. Scholars on rational expectations argue that fluctuations in the general level of prices can only manifest themselves in monetary and fiscal policy implementations as curve is upright (Cinko, 2005: 327).

Conclusion

As a conclusion of this chapter, founders of rational expectations theory have laid out the rule of fixed rate monetary growth as it will increase effectiveness of the monetary policy. In case decision-makers know that the central bank will follow a monetary growth path based on fixed rate for the money supply, those will reduce the shrinkage of the inflation rate and unnecessary movements in the production factors. In order to achieve this, policies should not be changed frequently (Özbilen, 2016: 420).

One of the most important aspects of scientific studies is literature review. Studies are completed as a result of literature review and references to sources of information used in the study. In the study named Rational Expectations Hypothesis, a radical idea appears to criticize the logic and method of conventional economic studies. In the following periods, attempt was made to apply Rational Expectation approach to various models and it became possible to create equilibrium conjuncture models with this approach. For this reason, before making detailed analysis on Rational Expectations, we would like to inform you, the readers, about studies in the literature that were published directly and indirectly about this approach. We hope that this study also takes its place in the world of economics upon addition to these studies in the literature in the future.

References

Börke Tunalı, Ç. (2009), "İktisatta Beklentiler ve Beklentilerin Modellenmesi", İ.Ü. İktisat Fakültesi Dergisi,

Yurdakul, F. Özcan, M. (2014), '' Uyarlanmış ve Rasyonel Beklentiler Modellerinin Doğrusal Olmayan Eşik Regresyon Modelleri Çerçevesinde İncelenmesi", Ankara Üniversitesi SBF Dergisi, Volume 69, Issue 2.

Şener, U. (2015), ''Beklenen Fayda Yaklaşımı ve Bu Yaklaşımın Sistematik İhlalleri", İstanbul Aydın Üniversitesi Dergisi 27

Tekin, B. (2016),' Beklenen Fayda ve Beklenti Teorileri Bağlamında Geleneksel Finans - Davranışsal Finans Ayrımı', Journal of Accounting, Finance and Auditing Studies 2/4, 75-107

Selen, U., Eryiğit, K. (2009), 'Yapısal Kırılmaların Varlığında, Wagner Kanunu Türkiye İçin Geçerli mi?', Maliye Dergisi Issue 156

Gaytancıoğlu, S. (2010), 'Rasyonel Beklentiler Teorisi Çerçevesinde Türkiye'de 1994 Krizi', Ekonomi Bilimleri Dergisi Volume 2, Issue 1

Cinko, L. (2005), 'Modern Politik Konjonktür Hareketleri Teorisi: Rasyonel Beklentileri İçeren Politik Konjonktür Hareketleri', Sosyal Bilimler Enstitüsü Dergisi Issue: 19/2 (325-339 s.)

Karaçor, Z. (1999),' Rasyonel Beklentiler Kuramında Enflasyon', Selçuk Üniversitesi Sosyal Bilimler Meslek Yüksekokulu Dergisi ISSN: 1302-4191

Hasanov, M. (2008) 'Enflasyon ve Enflasyon Belirsizliğinin Ekonomi Üzerindeki Etkileri: Türkiye Örneği', Doğuş Üniversitesi Dergisi, 9 (2), 191-206

Çiftçioğlu, S. (1994), 'Türkiye Ekonomisindeki Krizin Rasyonel Beklentiler Yaklaşımı İle Analizi', Ekonomik Yaklaşım Volume: 5 Issue: 12

İslatince, H. (2002), 'Rasyonel Beklentiler Teorisinin Rasyonelliği Tartışmaları', C.Ü. İktisadi ve İdari Bilimler Dergisi, Volume 3, Issue 1

Güngören, M. (2012), 'Bir Finansal Enstrüman Olarak Sukuk, Katılım Bankalarına Uyum Modellemesi', İstanbul Ticaret Odası Yayınları, Yayın No: 2012-38, İstanbul

Tunay, B. (2001), 'Türkiye'de Beklenmeyen Ekonomik ve Siyasal Olayların Enflasyon', Öneri. C.5.S.17 Ocak 2001.211-217

Onur, S. (2001) 'Politik Konjonktür Dalgalanmaları ve Türkiye Uygulaması', Süleyman Demirel Üniversitesi İktisadi ve İdari Bilimler Fakültesi C.6 S.2, 157-184

Dikmen, N. (2006),' Nominal Gsuh ve Politika Tercihi: St. Louis Model Uygulaması', Atatürk Üniversitesi İktisadi ve İdari Bilimler Dergisi C.20 S.2

Süslü, B., Bekmez, S. (2010), 'Türkiye'de Zaman Tutarsızlığının ARDL. Yöntemi ile İncelenmesi', BDDK Bankacılık ve Finansal Piyasalar Dergisi c.4 s.2

Saydam, İ., (2009), 'Yeni-Keynesçi Yaklaşımda Ücret Katılıkları', İstanbul Üniversitesi, İktisat Fakültesi, İktisat Bölümü, İktisat Teorisi Anabilim Dalı, c.59 s.2

Kanca, C., Bayrak, M., (2013), 'Türkiye'de Phillips Eğrisi Üzerine Bir Uygulama', Eskişehir Osmangazi Üniversitesi İktisadi ve İdari Bilimler Dergisi 8(3),97-115

Bostancı. H. (2013), 'Firma Düzeyinde Riske Karşı Duyarlılığın Beklenti Teorisi ile Açıklanması', Yüksek Lisans Tezi, Adnan Menderes Üniversitesi Sosyal Bilimler Enstitüsü İşletme Anabilim Dalı

Akyıldız, H. (2005), 'Temel Dinamikleri ve Çelişkileriyle Üretim ve Bölüşüm Süreci', TÜHİS

Bocutoğlu, E. (2014), 'Ana Akım Konjonktür Teorileri ve 2007 Küresel Finansal Krizi', International Review of Economics and Management V.2 N2 ISSN 2148-3493

Tollison, R.D ve Ekelund, R.B. (1986), 'Politik Konjonktör Uygulamaları', Economics, Boston: Little, Brown and Co. 1986. pp. 733-36. Translated by: Çoskun Can Aktan

Akalın, A. (2010), 'Liberal İktisat ve Krizler: Her Seferinde Haklı Çıkan Paradigma', EskiYeni Dergisi s.60-71

Kurt, S. Zengin, H. (2010), 'Beklentilerde Rasyonellik ve Yakın Rasyonalitenin Ekonometrik Testi', Yönetim Bilimleri Dergisi (8: 1) Journal of Administrative Sciences

Yılmaz, C. (2012), 'Türkiye'de Enflasyon Beklentilerini Belirleyen Makro Ekonomik Unsurlar', Uzmanlık Yeterlilik Tezi, TCMB - İletişim Ve Dış İlişkiler Genel Müdürlüğü, Ankara

Wolf, R.D, Resnick, S. A, (2016), Çatışan İktisadi Teoriler Neoklasik, Keynesçi ve Marksçı, Çeviri Can Evren, İletişim Yayınları, İstanbul

Düzgün, R. (2010), 'Türkiye Ekonomisi'nde Para ve Maliye Politikalarının Etkinliği', Uluslararası Sosyal Araştırmalar Dergisi v 9/11

Bildirici, M., Bozoklu, Ü., ''(2010), Beklentilerin Ekonomi Uzerine Etkileri: MS-VAR Yaklasimi", Koç University - TÜSİAD Economic Research Forum Working Paper Series, İstanbul

Bulutay, T. (2015), 'İktisatta Genel Kuramsal Düşünceler Ve Karmaşıklık Kuramı', Türkiye Ekonomi Kurumu, Ankara

Sivri, U. Eryüzlü, H. (2010), 'Rasyonel Beklentiler-Yaşam Boyu Sürekli Gelir Hipotezinin Testi', Ekonometri ve İstatistik Issue:11 S. 90–99

Aksoy, T. Ve Şahin, I. (2009), 'Belirsizlik Altında Karar Alma: Geleneksel ve modern yaklaşımlar', Türkiye Ekonomi kurumu, Tartışma metni, 2009/7

Bulutay, T., 'Karmaşıklık Kuramı, Kalkınma Konusunda Görüşler', http://mulkiye.org.tr/wp-content/uploads/2015/08/Karma%C5%9F%C4%B1kl%C4%B1k-Kuram%C4%B1-Tuncer-Bulutay.pdf access date 20.06.2017

Yamak, R. Küçükkale , Y. (1997),' Phillips Eğrisi üzerine Lucas Değişkenlik Hipotezi', Ekonomik Yaklaşım C.8 S.27

Kaya, F. (2009), 'Mali Kural Uygulamaları ve Türkiye İncelemesi', T.C. Başbakanlık Devlet Planlama Teşkilatı, Uzmanlık Tezi, Ankara

Karahan, Ö. (2006), 'Asimetrik Bilgi ve Para Politikası Etkinliği', Yönetim ve Ekonomi Dergisi C.13 S.12

Yıldırım, E., Lopçu, K., Çakmaklı S., Özkan, Ö. (2000), 'Yeni Keynesyen Makro Ekonomik Model: Türkiye Uygulaması', Ege Akademik Bakış C.10 S. 1269-1277

Yıldız, B. Gökbulut, R., Korkmaz, T. (2014), 'Firmalarda Temettü Politikalarını Etkileyen Unsurlar: Bist Sanayi İşletmeleri Üzerine Bir Panel Veri Uygulaması', Ekonomik ve Sosyal Araştırmalar Dergisi, Cilt 10, Yıl 10, Sayı 1, ss. 185-206

Yay, G. (2001), 'Chicago Okulu, Milton Friedman ve Monetarizm', Liberal Düşünce, 6(24), 196-207

Karabulut, A. (2013), 'Tüketicilerin Algılanan Risk Değişkeni Karşısında İnternetten Alışveriş Yapma Eğilimlerinin Ölçülmesi: Beklenen Fayda Teorisine Karşı', Journal of Yasar University, 8(32) ss. 5515-5536

PART IV.

CHAP 5.

LEARNING PROCESSES AND CONCEPTS IN RATIONAL EXPECTATIONS THEORY

Aslıhan NAKİBOĞLU, Merve LEVENT***

Adaptive Expectations

"The study of expectation concept in economic analyses paved the way to the discussion of the positive and negative aspects of the expectation model particularly named as adaptive and rational expectations and many studies were carried out with these two hypotheses and important criticisms concerning their validity. In the studies, antithesis was presented about these two hypotheses. These discussions are relatively focused on the theoretical content and criticisms of these studies.

The inconsistency between the advocates of rational expectations accelerated the development of hypotheses by those advocating this hypothesis to defend these inconsistencies. In the end, they concluded that both rational expectations and adaptive expectations are learned from similar historical data and experiences. Even though the evidence for the efficiency of the model is complicated, it is believed that both models are useful. Adaptive expectations hypothesis was considered as an ad hoc approach and it was understood that data and information are lesser and its structure is suitable for short-term analyses. Rational expectations is subject to longer learning experience with increased content and data, and it is suitable for more comprehensive and longer planning. Rational expectations hypothesis will continue to serve as a concept that suggests the need for a more systematic modelling, although it is not a single model by itself regarding the shaping of anticipations (Mlambo , 2012: 3).

Expectations in the field of economics are in a wide and central position. This is because they are a part of today's decisions. The model of expectations has been a very important matter for to contemporary macroeconomists. They are positioned in invisible structures of expectations (their existence and design in the mind are abstract). Models shaping those expectations

* Asst. Prof., Ömer Halisdemir University, Faculty of Economics and Administrative Sciences, Department of Economics History of Economics USA, anakiboglu@hotmail.com

** Expert, Ömer Halisdemir University, Faculty of Economics and Administrative Sciences, Department of Economics, mervee.levent@hotmail.com

are unplanned assumptions and the use of such assumptions is categorized as positivism. This methodology does not investigate the truth about a hypothesis, but questions its efficiency.

There are many models related to expectations; however, rational expectations and adaptive expectations are two most common models, and rational expectations take place in the mainstream Economics. In economics, adaptive expectations had a quite radical shift towards rational expectations. The New Keynesian started in 1970s and gained legal personality with the new conventional economies and in 1980s, it maintained its existence within macro economics. Rational expectations have also been a doctrine accepted by Lovell. A number of measured expectation surveys are needed to test the models shaping the expectations. These surveys providing individual answers were conducted by Joseph Livingstore for over 30 years. In real analyses of Livingstore's data as well as expectations, mixed results were revealed about formation of the data, Some reached to the conclusion that it supports rational expectations while some unknown expectations used biased results of the studies conducted by Figlewski and Watchel; average expectations rather than individual expectations. Important debates arose about positive or negative structures of these two hypothesis. These debates mostly focus on theoretical structure and empirical evidences. Both subject matters had strong supporters during such debates. In the studies, economists were more concerned about the theoretical structure, main theoretical views and empirical claims, and validity of hypotheses and arguments against them. As a result of these discussions, it was shown that these two hypotheses are economically opposed to each other, and studies revealing the model that has explanations about expectation formations were focused. In addition, it is a fact that some authors went beyond the original theory explanations for the purpose of attributing more objectives to these hypotheses than they can argue theoretically (Mlambo, 2012: 3-4).

In this context, adaptive expectations that were developed by P.D. Gogan , Friedman Nerlove, arguing that expectations of individuals about future value of the economic variables are formed average in the past or weighted average (Borke Tunali, 2009: 143) became a subject that was discussed extensively.

Below, an attempt will be made to provide information on adaptive expectations and formulation. It is assumed that these coefficients are between 0 and 1. The equality of these 3 equations are shown below. This equality is defined as follows in Gujuratide:

$$p_t^e = \delta p_t + (1-\delta)p_{t-1}^e \tag{2}$$

$$p_t^e = \delta p_t + (1-\delta)\left[\delta p_{t-1} + (1-\delta)p_{t-2}^e\right]$$

$$\therefore\ p_t^e = \delta p_t + \delta(1-\delta)p_{t-1} + (1-\delta)^2 p_{t-2}^e$$

$$p_t^e = \delta p_t + \delta(1-\delta)p_{t-1} + (1-\delta)^2\left[\delta p_{t-2} + (1-\delta)p_{t-3}^e\right]$$

$$\therefore p_t^e = \delta p_t + \delta(1-\delta)p_{t-1} + \delta(1-\delta)^2 p_{t-2} + (1-\delta)^3 p_{t-3}^e$$

$$p_t^e = \delta p_t + \delta(1-\delta)p_{t-1} + \delta(1-\delta)^2 p_{t-2} + (1-\delta)^3\left[\delta p_{t-3} + (1-\delta)p_{t-4}^e\right]$$

$$\therefore p_t^e = \delta p_t + \delta(1-\delta)p_{t-1} + \delta(1-\delta)^2 p_{t-2} + \delta(1-\delta)^3 p_{t-3} + (1-\delta)^4 p_{t-4}^e$$

Thus , adaptive expectations that is one of the ways of shaping expectations, are the simplest forms, and the future value of the interest variable depends only on its past values. Considering several variable structures in the literature about adaptive expectations, this hypothesis is defined in 3 equal forms in accordance with the following equations.

$$p_t^e = p_{t-1}^e + \delta(p_t - p_{t-1}^e) \tag{1}$$

$$p_t^e = \delta p_t + (1-\delta)p_{t-1}^e \tag{2}$$

$$p_t^e = \delta p_t + \delta(1-\delta)p_{t-1} + \delta(1-\delta)^2 p_{t-2} + \delta(1-\delta)^3 p_{t-3} +$$

$$+\delta(1-\delta)^4 p_{t-4} + \delta(1-\delta)^5 p_{t-5} + \dots \tag{3}$$

Here;

Pt = Actual price

P e t =Price expected in the future (price expectation)

t = a certain period and & = expectation conversion coefficient

To expand the RHS of a formula one and separate it into multipliers and converting the obtained expected delays price variable into a factor.

$$p_t^e = p_{t-1}^e + \delta(p_t - p_{t-1}^e) \tag{1}$$

Thus,

$$p_t^e = \delta p_t + \delta(1-\delta)p_{t-1} + \delta(1-\delta)^2 p_{t-2} + \delta(1-\delta)^3 p_{t-3} + \delta(1-\delta)^4 p_{t-4} +$$

$$+\delta(1-\delta)^5 p_{t-5} + \dots \tag{3}$$

Equivalence of the equivalence conversion process for the three adaptive expectation equations applied by Kayck can prove the equivalence conversion process obtained by Kayck (reversible) (3)

Thus, the value expected below the adaptive expectations can be seen as the immediate past expectation and the weighted latency error (equation I)

$$p_t^e = p_{t-1}^e + \delta\left(p_t - p_{t-1}^e\right) \tag{1}$$

In this equation, it is clear that the individual has set new expectations by using the expected errors observed to review the previous expectation. Therefore, Gujarati called the adaptive expectations hypothesis as progressive expectation or error learning hypothesis. If there is a perfect forecast, this formulation will be maintained until there are changes in the external factors affecting the actual price of the previous estimation (i.e., zero expectation error).

Thus, as it the case with rational expectations, this hypothesis simply expresses full satisfaction of expectations. Equation 2 is defined as the form in which the weight unit of today's and future expectations is added.

$$p_t^e = \delta p_t + \delta(1-\delta)p_{t-1} + \delta(1-\delta)^2 p_{t-2} + \delta(1-\delta)^3 p_{t-3} + \delta(1-\delta)^4 p_{t-4} +$$

$$- \delta(1-\delta)^5 p_{t-5} + \ldots \tag{3}$$

Equation 3 defines the adaptive expectation as a process in which when the expected value is closer to the past, the weight decreasing geometrically and the variable are constructed as a weighted sum of all past values.

The economic agents in the hypothesis mean that their expectation forms are a sample of historical values. The derivation process of the equation shows that all the historical expectations and historical values of the relevant variable embody with a different and more reasonable appearance than Gercheuten. It also implies that these representatives are sensitive to all historical prices. It is impossible for the agency to be sensitive individually to all prices in the past. More precisely, the past prices are embodied by the current expectation rather than the current expectation.

$$p_t^e = \delta p_t + (1-\delta)p_{t-1}^e \tag{2}$$

Using Equation (2), it can be assumed that the expected coefficient is 0 and variables of the expectations can be obtained.

It extends between 1 or 2 boundaries. Thus we see independent expectations when

$$\delta = 0,\ p_t^e = p_{t-1}^e \tag{4}$$

and static expectations when

$$\delta = 1,\ p_t^e = p_t \tag{5}$$

.

We can see induced expectations when

$$0 < \delta < 1,\ p_t^e = \delta p_t + (1-\delta) p_{t-1}^e \tag{2}$$

Induced expectations are the general formulation of adaptive expectations, so adaptive expectations have been used in economic studies to indicate induced expectations (Mlambo, 2012: 4-6).

3 criticisms were brought forward about Adaptive Expectations hypothesis that was used extensively in 1950s and 1960s; these criticisms are as follows:

1- Consideration of only past observations in formation of expectations

2- Relatively slow correction of expectations when compared with actual values

3- The absence of a rule that sets the value of correction parameter (Borke Tunali, 2009: 144).

Bayes Theorem

The Bayes Theorem is a tool for updating a pre-existing or predicted structure, taking into account information from different sources, alternatives, or new information.

Updated estimates are defined as posteriori estimates and, despite the succession of Bayesian implementation of an estimation problem theorem, values can play a role in predicting for the next iteration in the process.

As explained in previous conferences and presentations, the Bayes Theorem emerges directly and nobody challenges the identity of the fundamental relations between conditional and common probabilities. However, frequentists in debate that tend to make a distinction between theorems applied for statistical estimation of Bayes Theorem, approaches about decision problems argued that each statistical inference is frequently fundamental subjective Apiriori probabilities. Even though frequentist approaches identify as conventions, the approach of Bayesian approaches to statistical inference is thought to be frequentist approach.

As Frenberg describes, Bayes' technique has a roughly 250-year history and it begun with the Industrial Revolution. This historical process has been expressed in the work named '' An Essay Towards Solving a Problem in the Doctrine of Chances (1763) '' published after the death of Thomas Bayes. On the other hand, the frequentist approaches did not exist before the 20th century. Not surprisingly, Bayesian adjectives do not exist until they define it as a label for other kids (Bahling: 2005: 1).

Based on this information, according to the Bayesian learning model, if the learning process is repeated enough, the rational expectations will reach a balance. The only difference between this model and rational expectations is that economic units do not know all the elements of the economy. However, the economic units are able to learn the other model representing the economy and the parameters of this model in the direction of the experiences they have obtained, so, the rational expectations can reach the equilibrium "(Börke Tunalı, 2009: 154).

Development of Bayes Theorem

Terminology

P(A): The probability of event A is A (marginal)

P(B): The probability of event B is B (marginal)

P(A,B): Likelihood of simultaneous occurrence of events A and B (Combined)

P(A/B): The likelihood that a given event A forms event B

P(B/A): The likelihood that a given event B forms event A

Common Relationship Between Marginal Probability and Conditional Probability

$P(A,B)= P(A/B)P(B)$ or

$P(A,B)= P(P/A)P(A)$

So:

$P(A/B)P(B)= P(B/A)P(A)$

If we arrange Bayes Theorem again and explain with a simple example

$$P(B/A)=\frac{P(A/B)P(B)}{P(A)}$$

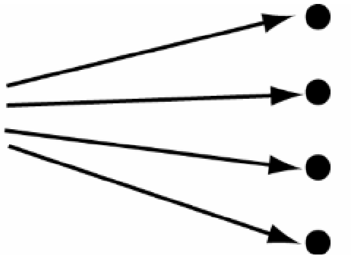
Mostly, B represents a basic model or hypothesis, and Bayes Theorem is systematically written as A if it represents observable conclusions or facts:

$P(\text{ model/data})\infty \; P(\text{data/model})P(\text{model})$

Explanation of this advanced problem is as follows:

P(data/model): Expression of problems corresponding to the likelihood of obtaining data from observations in a given model.

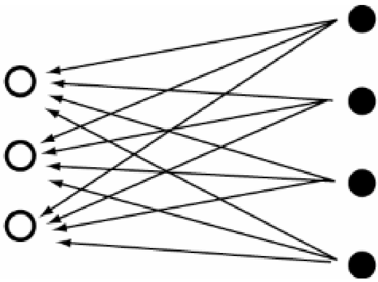
P (model /data): Probability reveals the observed data of the data in a certain model. In case of intent to make some estimates about the probability of occurrence of the model, we let P (model) return information about the likelihood of different probabilities of probable effects of Bayesian theorem, or when we consider the previous data.



Reason(B) Outcome (A)

Information on possible causes when considering observed effects:

Possible reasons



Observed effects

If we assume that B represents one of the mutually exclusive events, and that the conditional probability of the formation of A by B is P (A/B), in this case the total probability for the formation of A;

$$P(A) = \sum_{i=1}^{n} P(A|B_i)P(B_i)$$

and the conditional probability that conditional probability B performs will be as follows.

$$P(B_i|A) = \frac{P(A|B_i)P(B_i)}{\sum_{j=1}^{n} P(A|B_j)P(B_j)} = \frac{P(A|B_i)P(B_i)}{P(A)}.$$

In other words, if it is assumed that this event (A) arises with P(A/Bi), each underlying situation is Bi, i = 1....n.

We can evaluate posteriori estimates to update an apriori assessment of the probability of each occurrence of P (Bi) in our observations of the formation of A. (Bahling, 2015: 1-4).

The learning process in the Bayesian model is based on the following assumptions.

1 - economic units have a prior probability distribution of economic variables that may affect their decisions and the parameters determining their economic position.

2-economic units constantly observe the values of economic variables that can affect their decisions and the changes that occur in the economic structure they have.

3-economic units update their initial probability distributions as a result of observations they have made and this update continues until the learning process is completed "(Börke Tunalı, 2009: 153). On the basis of these assumptions, the economic units will reach the equilibrium of rational expectations.

Game Theory

Microeconomics examines how individuals can maximize their earnings. Or based on the most general definition "it analyses rational individual behaviours and their interactions" (Özer, Turan and Ulusoy, 2017: 1). In this framework, microeconomics focuses on structures such as individuals, firms, industries in a rather extensive manner.

Determination of the commodity mix which increases the benefit on the budget line in the modelling is the basic precursor of microeconomics and it is important for the rational behavior (Özarı, Turan and Ulusoy, 2017: 1).

From a micro perspective, it is observed that, among established models, concepts such as technological structure, market conditions and legal procedures are the most important factors determining company strategies (Özarı, Turan and Ulusoy, 2017: 1). From a micro perspective, acting based on policies that will maximize the most important goals of companies will create their primary purpose. This shows that, from the economic perspective, an individual concentrates on more profit-oriented analysis with respect to more utilitarian firms.

Another important concept of microeconomics is the balance factor. Various concepts of probability can be included in a certain area with the help of the equilibrium and the simulated behavioural models of economic individuals or firms can be explained. From the perspective of economic theory, these boundaries turn into facilitators in the solution of equilibrium. Based on this frame, it is thought that the behavior of the individuals and the company and the equilibrium state will not change. However, when the decision process of a single economic individual comes into view, only a balance process that is compatible with the environmental conditions at maximum level can be considered. In this respect, a monopoly company in the micro-economy may try to increase its price by raising the price of its product or decreasing its supply (Özarı, Turan and Ulusoy, 2017: 2).

Various assumptions are made based on Game Theory models in connection with the rationality of economic units, the level of knowledge they posses and mutual interaction between economic units and an attempt is made to analyse behaviours of economic units based on such assumptions (Borke Tunali, 2009: 158). These approaches are defined as mimic learning model and empowerment learning model. Mimic learning models operate on the following principles and offer various decision-making proposals to economic units:

1- Behaviours imitate and change only the behavior of other economic units,

2- The fact that behaviours that provide less benefits than benefits obtained are never imitated,

3- Evaluation of the behavior of any individual according to the behavior of other individuals in terms of relative benefit (Börke Tunalı, 2009: 159).

In the strengthening learning model, it is based on 2 psychological beliefs in the learning process, and is divided into 2 according to the law of influence and the power of practice law.

Based on the law of influence, if the elections made in the past gave good results, the possibility of repeating these elections will increase in the future. Based on the power of practice law, the learning process is difficult in the beginning and it is facilitated during further stages. Thus, the learning curve becomes steep in the beginning, and then it becomes more complete (Börke Tunalı, 2009: 160).

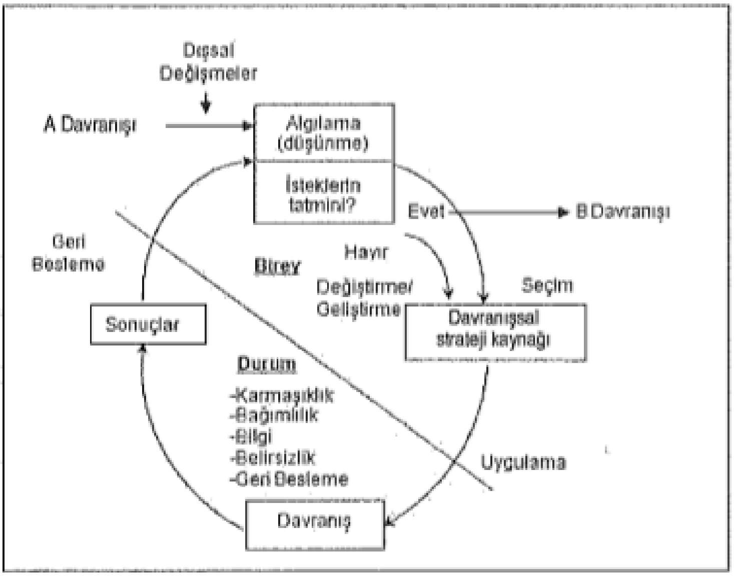
Models formed within society based approaches are generally defined as evolutionary models. In such models, the learning process is often explained by the dynamics of duplicating used in biological evolution models. Duplicating dynamics will depend on whether the growth rate of the strategy applied by a subgroup of a given mass is higher or lower than the average gain of the gain of that particular strategy. In other words, individuals who constitute the mass will decide whether they can copy the strategy or not, by asking the result of the strategy they applied to the other individuals in the mass (Börke Tunalı, 2009: 161).

Game theory models are a branch of applied mathematics that examines the structure accommodating the mutual strategic decision- making process in which earning of an economic unit is related with the decisions of other economic units, and it appears as a very important subject for today's world of science. Many branches of science such as economics, mathematics, biology, etc. benefit from this theory. Game theory improves the progress and order of science in the 21st century and it is observed that many elements encountered in real life and limiting the learning process are taken into consideration in the said model. For this reason, these models should be developed simultaneously with the actual learning process (Börke Tunalı, 2009: 160).

Condıtıonal Learnıng Model

The conditional learning model that analyses the effect of learning conditions on learning behavior, was developed by T. Slembeckin in the end of the 1990's. In this model the learning process is explained with the help of a spiral. The changes that come into play when the economic units face constraints or when a change in relative prices occurs, initially lead to a cognitive change. Economics agents attempt to determine the most appropriate strategy within the limits of information they possess after they take this external change into consideration. Thus, in the following spiral, behaviour A turns into behaviour B. The results obtained with the applied strategy are examined in the direction of the feedback mechanism and it is determined whether the requests are satisfied or not. If a certain level of satisfaction is reached, economic unit B continues applying behaviour B as long as there is no change in conditions, and a new behavioural pattern is adopted when the desired satisfaction is not achieved. Therefore, this cycle continues until the desired level of satisfaction is achieved, and new strategies are added to the strategies possessed in each new cycle. Thus, the alternatives that can be preferred increase in possible situations that may be encountered (Börke Tunalı, 2009: 162-163).

Şekil 2: Öğrenme spirali



Source: Börke Tunalı, Ç. (2009), "İktisatta Beklentiler ve Beklentilerin Modellenmesi",
İ.Ü. İktisat Fakültesi Dergisi, s. 162-163

In the conditional learning process:

1) Non-complicated structure of the learning environment will have positive effect on the learning process.

2- The number of operations in the realization process of the student should be limited and simple

3- Having economic knowledge will help the learning process.

4- Exceeding a certain number of individuals will facilitate the learning process.

5- Absolute frequency of feedback is important.

The relative frequency of feedback is important.

6- The higher the feedback frequency is, the more the learning process will be facilitated.

Non-complicated nature of the feedback will facilitate the learning process.

7- Learning will be facilitated in proportion with the information provided about causes and results of the behaviours in the feedback process (Borke Tunali, 2009: 163.

In real life, this model is far from defining the structure related with the learning process. The reason is that it can not be a universal learning model that can be used in modelling of expectations as it is done in other models. In this context, for reliable and sound evaluation of economic theories, economists should develop an approach on how expectation formation processes will occur in the economic structure and how expectations will be shaped as a result of the effect, and it will be ensured that they reach to generally accepted learning models that can used in studies on the model related with expectations.

Conclusion

In the aftermath of the 1970s, the inadequacy of Keynesian economics in the world economy laid the foundations for the formation of various macroeconomic theories in different areas of economics. One of these theories is the rational expectations theory. In the rational expectation theory, individuals can create the best predictions about the current situation through optimal evaluation of the available information, using past and current period data while creating economic expectations. This implies that all economic actors taking a role in making economic decisions must comply with the expectations during decision making process.

In economics, expectations concept affects inflation expectation, term of the interests, active and passive management of banks, total demand, autonomous consumption and autonomous investment, etc. Static expectations that do not take expectations into consideration in decisions of economic units, adaptive expectations taken as an average of the past changes in the future expectations and future value of the existing variable are rational expectations that are considered equal to the best prediction made in connection that variable using all source information related with that variable. Economists make a distinction such as exogenous and behavioural uncertainty as reasons of uncertainty.

Given the models prepared based on rational expectations theory, taking only past observations into consideration in the formation of adaptive expectations, criticism about the slow correction of the expectations compared with the actual values; rational expectation equilibrium can be reached when learning process is repeated at adequate level based on Bayes theorem, game theory models focusing on rational individual behaviours and interactions between them are a branch of the applied mathematics focusing on structures with limited mutual strategic alliances of earnings of an economic decision-making unit based on decisions of other economic unit and it appears as the most important subject of today's world of science, and many factors encountered in real life and limiting the learning process are not taken into consideration during improvement of the scientific progress and order of the game theory in the 21st century. Therefore, it is stated that these models should be developed simultaneously with the actual learning process. It is stated that conditional learning model is far from defining the structure of learning model encountered in real life and it is criticized for the inability of forming a universal learning model that can be used in modelling expectations as is the case with the other models.

Given the micro and macro aspects of the rational expectations theory, the concept of unemployment is addressed from the perspective of total demand and total supply. Given the fact that economic information is used effectively in the formation of price expectations, the unemployment level will be at a natural level if the expected price level is realized. However, supporters of the theory think that unemployment and production fluctuations occur as a result of a problem in making a distinction between changes in the general price level and respective prices in accordance with rational expectations theory. About inflation, according to the rational expectations theory, people will immediately react to developments that may lead to deflation in the economy, leading to continuity of inflation. They express that various groups will prepare inflation and they recommend restricting the growth of money supply in the fight against inflation with more confidence in the market functioning of higher interest rates and restrictions on public expenditures. For this reason, in response to any kind of economic movements that would lead to inflation, they thought that politics should be focused on stability rather than being active, and the public should determine only the rules of the game and should shape their expectations according to what possibilities are appropriate for them. In the Philips curve model; the level of production and employment in the economy will move away from the natural level provided that the individuals do not make systematic mistakes regarding inflation expectations. But when these errors are random, the Philips curve will be parallel to the vertical axis. Expectations will only shift the curves. About price, founders of rational expectations theory have laid out the rule of fixed rate monetary growth as it will increase effectiveness of the monetary policy. In case decision-makers know that the central bank will follow a monetary growth path based on fixed rate for the money supply, this will reduce the shrinkage of the inflation rate and unnecessary movements in the production factors. They also demand that these policies to be changed frequently. Considering Cagan model; analysis on Cagan's inflation model based on expectations was taken as start point and opportunity was created to re-predict for economic structures in theoretical study of Cagan based on the result obtained. Thus, Cagan laid foundations of the theory expressed as adapted expectations and internalized the structure about formation of expectations with an economic model based on logic. As a result of the information obtained in the study, it has been understood that that the concepts of expectation and uncertainty are very important in economics. Economists Keynes, David son, Knight .... Many economists studied the concept of uncertainty. And in economics, uncertainty played a very important role in the decision-making processes of economic agents. In the science of economic, studies in the literature use rational expectations to a higher extent in modelling of expectations. However, it has been determined that assumptions of the hypothesis of the rational expectations do not overlap much with the facts. Economists have recently attempted to develop expectation modelling approach in the recent periods, i.e., adaptive expectations about modelling expectations, rational expectations, learning models, etc. However, as a result, they have found that the models perform far from the definition of the learning process that can be seen in real life. The reason is that it can not be a universal learning model that can be used in modelling of expectations as it is done in other models. In this context, for reliable and sound evaluation of economic theories, economists should develop an approach on how expectation formation processes will occur in the economic structure and how expectations will be shaped as a result of the effect, and it will be ensured that they reach to generally accepted learning models that can used in studies on the model related with expectations. Thus, the information obtained about the subject matter will be added to the literature sources related to economics in a relatively reliable manner and take its place in the world of science.

References

Bahling, G. (2015), 'Applications of Bayes' Theorem', Kansas Geological Survey

Börke Tunalı, Ç. (2009), "İktisatta Beklentiler ve Beklentilerin Modellenmesi", İ.Ü. İktisat Fakültesi Dergisi, s. 135-168.

Mlambo, L. (2012), 'Ataptive and Rational Expectations Hypotheses: Reviewing The Critiques', *Journal of Economic Behavio,* vol 2

Özarı, Ç., Turan, K., Ulusoy, V., (2017), *Oyun Teorisi,* , Pegem Akademi Yayıncılık, 2. Basım, Ankara

PART V

GENDER ECONOMICS

PART V.

CHAP 1.

THE CHANGING ROLE OF WOMAN'S LABOR IN THE WORLD ECONOMY IN THE GRIPPER OF CAPITALISM AND PATRIARCHY

*Şeyda GÜDEK GÖLÇEK**

Introduction

The construction of the inequality between the two genders of the humankind has appeared as a consequence of the relations of production and distribution that apply to society, beyond biological differences. This division of labor between sexes and, consequently, position oh woman in society has not always included an asymmetrical relationship. However, the traces of asymmetric relationship have begun to encounter in early periods of history.

According to anthropological studies, the first economic division of labor between women and men came about with the beginning of hunting. While men engaged in hunting and animal husbandry, women dealt with house management and agricultural production in the sedentary primitive society that was hunter and gatherer. According to ethnographic evidence, all inventions in this period are works of women, such as spinning physics, pottery making chemistry, weaving loom mechanics, botanical methods involving the seeding of seeded plants (Çitçi, 1982, pp. 2-3). Both sexes benefited from equality and were didn't suppressed by a hierarchy in the society where women participated in economic activities and make important inventions which facilitated everyday life (Reed, 1975, p. xxiv).

The primary motivation of human was to survive in this period characterized gathering and hunting. There was no inequality among labor values of women-men because settled life did not be passed and therefore there was no accumulation. But this stage also led to the birth of the patriarchal structure (Şenel, 1982, p. 54). The main reason for the evolution of the structure of society in this way was the domestication of cattle. Domestication of cattle made possible use of plow – a different kind of anchor that used by women to cultivate until that time-through cattle power. This development took a great workload on women, but on the other hand, it led women to lose their specific weight in agriculture. Men, who were mainly involved

* Nigde Omer Halisdemir University, Faculty of Economics and Administrative Science, Department of Political Science and International Relations +90 (388) 2252028 / seydagudek@gmail.com

in the production with plow, cut women's ties with superior mother-right taking on their task which was heavy but important (Childe, 2009, pp. 97-102).

As a result of the development of herd feeding which became an integral part of agriculture and achievement of men, who became the figure of production, the surplus value which was the result of this production, the problem of transfer of assets emerged (Childe, 2009, pp. 102-103). The monogamous marriage which based solely on man's initiative, begun to take the place of temporary or multiple marriages. Ultimately, the patriarchal structure based on the sovereignty of men who wanted to transfer his assets to children through inheritance. "*The overthrow of mother right was the world historical defeat of female sex*" in this course of the event (Engels, 2004, p. 10).

In the process after that, the women have been started being imprisoned in the inside-home area increasingly by debarring them from joining economic activities. Several factors like religion, law, and ideology have been effective in the arbitrage of patriarchal structure, and still, man-women inequality has come to today consolidating progressively in the guidance of those. In the point of deepening of the inequality; the capitalism that takes place between those factors has been in cooperativeness with the patriarchal structure as well as it has accelerated the patriarchy by producing it again. In reality, the capitalist accumulation period; processed in the conditions that patriarchy presented to the stock and it has raised in the patriarchal base.

The circular relation between capitalism and patriarchy, which support each of them even though it contrasts with them sometimes, reveals disadvantageous results for women. The women's labor is one of the areas that the disadvantage is obvious. Thus, the women's labor in the capitalist system has been trivialized by ignoring it in the inside-home area, defined as the lower layer of hierarchy compare to the man's labor in labor-market. Female laborers generate the part that is destitute from work guarantee, rights of social security and work security most. In addition, systematic states have been the indicators of attendance to manufacturing in narrowing and enlarging times of economy without considering the initiative of the woman. In situations like the war where the economy is enlarged, and men labor is not enough, women had been employed as masses; on the contrary, women had been the first who booted out from the market in narrowing periods and in crisis. In this perspective, women have been seen as a reserve labor force and even the alternate of the alternate workers by the capitalist system[1]. The role of women labor in the system has been identified as low-cost labor with the globalization of capitalization. Today, exploitation of women's labor is becoming more global to lower the manufacturing costs, but here the situation of immigrant woman is more dramatic.

1 The phrase *alternative worker* is used by Karl Max as one of the production cost controlling tools of capitalism. It includes sharpening of the unbalance in labor supply and demand, by capitalism according to its own profits. The fund uses that tool for both preventing the raising of prices by exposing the possibility of using alternatives and providing a malleable labor force.

According to that situation, the changing role of women's labor in the global economic system is approached in this study. The period starts from Industrial Revolution when women entered the market as a costing labor and continues till today is examined. In this historical journey, the function of women's labor in the market had changed in the 1970s when Capitalism started being global. For that reason, the changing role of woman approached in two parts: before global capitalism and after it. However, beyond these, the first of all the content of the woman labor should be understood. Therefore, seeing a woman as the free keeper of household effort/care determines the place of paid labor that has a value in the market. The area that is created as a result of the integration between capitalism and patriarchy is the basic reason of trivializing and so cheapening of women's labor; the same dilemma continues today.

1. Women's Labor in the Gripper of Capitalism and Patriarchy

Public and private area separation, which is a structural feature of modern society, has been formed. As a result, the family not becoming a production unit with the Industrial Revolution (Louw & De Vries, 2010, p. 17). "*Modern Industry turned small shop of the patriarchal master into a big factory of industrial capitalist.*" (Marx & Engels, 2016, p. 73). With the development of modern industry and industrialization manufacturing tended towards the factories, women started to be suspended from economic activities. By the spatial separation of home and working place, while men were in public places with the advantages of being employed, women seemed as the keepers of housework and childcare (Tosun, 2014, p. 432). Eventually, the women were identified with the home-oriented private area and wives, sisters, daughters, and mothers had become the free inside-home laborers of husbands, sons or fathers.

Women started to join salaried labor force under favor of economic presses, propagation of the idea of the need for two salaries for better living conditions, and the raising women movements with equality requests (Başak, Kıngır & Yaşar, 2013, p. 19). However, the increase in the employment in the labor market did not take the responsibilities of the house from the woman. On the contrary, mostly the inner-house labor, also known as "*nonvisible labor,*" continued to impose women as being a *second shift* or *double shift* (Hochschild & Machung, 1989). The workplace became the first place, and home became the second place for the women joining the employment.

Home services that are made up of housework, children, and old or sick people's care create usage value when the woman in home produces them in her second shift (because they are produced in private/family area), and changing value when they are taken from market (because they are produced in public area) (Zetkin, 1996, p. 17). For that reason, those works that are usually managed by a woman, do not have a price as they do not create a changing value in the capitalist system. Pricing is, on the one hand, home responsibility is seen as a natural and mandatory responsibility that a woman has to do because she is a woman (Gunter & Gunter, 1990, p. 355). So that it is counted as none and made invaluable by not seen as work or labor. Even though they work in the salaried labor market, their necessity for doing "*house responsibilities*" becomes the foundation of patriarchy and capitalism (Delphy, 1980, pp. 32-33).

The socialist work sharing of home labor produces patriarchy again as it ensures the continuation of the hierarchy between man and woman. Men create control over women's labor. At that point, the home labor criticized with home and marriage by feminist theorists[2]. radical and Marxist feminists examine family and marriage as institutive mechanisms in the sense of exploitation of woman labor. Not only capitalist but the husbands and fathers who get personal service are also the exploiters of women's labor (Donovan, 2015, p. 161). According to the modern socialist feminists, the home service creates alienation on the woman as it is not a creator, it makes abstract, and it is not chosen freely (Donovan, 2015, p. 156). One of the leaders of cultural feminism, Gilman, signs the connection to the house as one of the supporters of unnatural helplessness of woman (Stetson, 1898, p. 65). For him, the *male-made* family is in man's despotism, and the house belongs to the man (Gilman, 1914, p. 40). Women are objects that are shunned and whose only aim is to serve man in the families that patriarchy is based upon possession (Gilman, 1914, pp. 35-40). The most important representative of the existentialist feminist movement, which indicates the existence of a dialectical relation between man and woman, Simone de Beauvoir, says that hierarchy the woman that is alienated and identified by the man, doing housework as a routine supports the hierarchy (De Beauvoir, 2010, pp. 535-536). Therefore, the fact that man is the one being served and introducing it as natural supports the continuity of patriarchy.

The patriarchy that processes over the labor of women at home decides the destiny of salaried women's labor in the labor market. Women encounter similar labor plunder of patriarchy but this time in the legitimate base that patriarchy created in the capitalist economic system. patriarchal harbor capitalism by providing functions like the supply of cheap and easy labor force, pressing the cost of a salaried male worker, and the freedom of ability to consult or renouncing women labor as an alternate army of workers by wish.

The housework, which is the "*real*" field of the woman, does not worth money, so it is invaluable and even not counted as a work (Benston, 1969, p. 16). Yet labor is both a converter labor and a criterion that shows the value of labor for example how much it can cost as a provision or how much it can race with another product (Meda, 2004, p. 89). In a structure that value of money determines, of course, women who do invaluable work have not as much value as the men who work for money (Benston, 1969, p. 16). As a natural consequence of this mentality, if women labor will find a financial reward, it should be priced with less amount compared to men. This fact made up the financial basis of low salaries of the woman being in low

2 As an explanation, the feminist theorists, do not blame inner-home labor and child, old and sick care in that axis. The problem is waiting for all the labor from the women and making it interiorized with women.

status or being second-class labor force in the production. In addition, because of patriarchy pushing women to stay in private area or leaving women under the control of men, women, for example like the occupations in capitalist society, do not have the same equality of opportunity with men in accessing the manufacturing sources (Hartmann, 1979, p. 11). For that reason, the employment of women, who is as important as secondary for men, is behind men in the formal areas. This gender-based hierarchy of center-environment in labor market pushes women to work in informal areas. As this area has no social guarantee and supervision, women labor is cheapening.

At the same point, another role of patriarchy is hidden and activate devaluation mechanism by hiding (Atasü Topçuoğlu, 2010, p. 126). Even women earn a significant amount of money for the maintenance of the house; they see their earnings as a side income, contribution or pocket money. Women interiorizing patriarchy prevents them the value of their manufacturing and labor, so it hides women's labor. For example, a woman who does decoration for pullovers for ready-made clothing sector and earn price for each piece, do not see herself as working because she works at home and thinks the work that she already does as a "*woman job*" (Arat, 1997, p. 109). In that way, a group of workers who is unaware of their work and is an economic actor that their work cannot be realized. For that reason, most of the women working at home do not see what they do as a job and define herself as a homemaker. In a statistical analysis, although these women provide economic value, they are seen, as they are not working, as they are unaware. Therefore, this activation prevents women from awareness, getting organized, search for their rights, and make their hard-work less valuable.

Women's labor that is cheaper than men's labor crates a good alternative for the fund that continuously moves with the instinct of income maximization. To add, the social norms that women undertake like servility, docility, and patience makes the women a suitable labor force for the fund. Women who are more successful in doing routine works like housework compare to men, are seen as suitable laborers by the fund for massive production (Ergüneş, 2010, pp. 195-196). The negative situation in employment makes reaching women labor easy, increases the capital stock by lowering the costs. Such that, the big difference between man and woman labor price is in a global situation and it is not expected they will be balanced in the short term (CONSAD, 2009, p. 36).

By keeping the woman labor, which seems less valuable as an alternative, the labor competition is kept fresh. Getting woman labor in a cheap and easy way causes woman labor to be preferred where the labor costs much. The request for man labor decreases and increasing price for man labor is prevented because of an increasing tendency for woman labor. The woman labor being cheap directly and woman labor being useful for pressing price of man alternatively serves to the profit of stock.

Inside-home labor constitutes another way of woman labor preventing the increasing price of men's labor. In spite of the labor itself being commodified, the process of labor production (even there is an increasing tendency in that way) is not commodified as a whole yet (Mandel, 2013, p. 391). The not commodified part, so the of production without a financial provision constitute the function of woman's care and reproduction. Man laborer provides the needs like food, cleaning, children and old care, basic health service and resting from the women in family freely instead of providing them from the market with money (England & Folbre, 1999, p. 199). Human is providing his/her physical needs to improve potential, labor force that defines a human's capacity for working is an obligation. However, taking it from the market will increase the cost of the labor. Thus, women serving caring services freely in the private area will provide both re-producing men labor in daily and re-producing by birth in the long term with less cost. (Stetson, 1898, pp. 16-17).

Fortifying inside the home as a woman's real area, and inner-home services hardening both development of personal capacity and salaried work achievement by taking most of their time (England & Folbre, 1999, p. 199). This situation puts woman labor in a negative position and makes it flexible for the fund. So that the freedom of getting employment of woman labor or not on needs is provided. In the period of dilation of the economy, in the situations where men's labor is not enough or making costs minimized, the fund applies to woman labor (hooks, 2012, pp. 66-67). However, in the opposite situation, it is a woman who is unemployed. In those situations that creates no anomaly for the patriarchy, also, women are placed as an alternative worker army in the labor market. When the employment of labor decreased, there is no objection of women returning their homes, because according to the patriarchal capitalism the primary actors of the market are men.

In this context, the fund provides legitimacy for its own needs and guarantee for patriarchy by being supported by the relations of patriarchy. Patriarchy pushes women to weak situations in the work market, and here capitalism uses woman labor with low price and ease. The capitalist structure which prices women's labor lower and ends her job whenever it wants creates a vicious circle that continues the dependency of the woman to her husband or another man in the family. The bases of the role that salaried women's labor plays in the capitalist economic system are the sharpening of the labor between those two grippers.

2. Inclusion and Development of Women's Labor in Capitalist Economic System

As well as the involvement of women in production in the sense of providing labor production dates back to old times, the involvement of capitalist economic system in waged laborers corresponds to the later 18th century. As capitalist development has necessitated, women, who first worked as slaves, serf, assistant or apprentice, have begun to appear in the labor market as modern laborers (Çitçi, 1982, p. 17). Mechanization, which is the most effective invention of the Industrial Revolution, led to the use of intensive labor and capital, and the accumulation of capital from agriculture and commerce by that time reached a further dimension (Rosenberg & Bildzell Rr., 1992, pp. 174-175). Women and children who were abundant and cheap labor to meet the needs of the industry began to be employed for jobs previously done by men (Dönmez Atbaşı & Kurtulmuş, 2012, p. 257). The conditions created by the organization of production and the need for labor arising from the increase in the number of factories have led production to be performed out of the home, and poor living conditions due to *misery charge*[3] have allowed women to be employed in working area. Accordingly, the decline of trade capitalism and the rise of industrial capitalism have convicted women to live on hunger threshold.

However, the entry of women into the labor market does not represent a monolithic process that goes forward for all women in the world. On the contrary, the relative position of women in production process varies according to the accumulation level of capital and, to the intensity of the social classes' struggle (Tekeli, 2017, p. 8). The entry of labor, in a known sense today, into markets, naturally took place in early capitalized countries such as Britain and the United States. But even as it is, the date stated is still far from the inclusion of all women. At this point, class difference between women became a determining factor for the entry of women into the labor market. Because the first women to participate in production after the Industrial Revolution were poor women belonging to the working class. The appearance of bourgeois women in the labor market began with the emergence of "*feminine*" professions such as office services, nursing or tutorage. Especially for married bourgeois women, this time can be postponed to a future date (Çitçi, 1982, p. 17).

The first working areas for women in the labor market are large-scaled (mostly in the textile sector) workplaces, which do not require qualified labor and domestic services. As a result of the hierarchy of the jobs that women and men were employed for, a division of labor emerged and women employed in unqualified jobs. In the manufacturing process, production was fragmented and simplified with the help of machines (Scott, 2005, p. 386). Therefore, the employment of women was facilitated and unqualified without any training or long learning process.

However, capitalist capital, based on private property and entrepreneurship, free competition and profit-seeking, obtained the support, required for its advancement, in liberal thinking. Liberalism, which rejected state intervention and let the market to operate in free competition, lowered the wage of the labor market. Accordingly, while capital owners rapidly became rich, a society, oppressed and increasingly became poor under the conditions of hard working and living, began to appear. At such a stage, with acceptance of low wages, poor working conditions and long working hours, substitution of women's labor to men's labor became an application of capital (Blau & Kahn, 2000, pp. 76-78). For example, two- thirds of 92,000 employees

3 Misery wages, also known as "*wages enough not to die*" allow laborer to live on and meeting only his/her basic needs with difficulty. But, even basic needs are impossible to be met in an absolute success.

working in textile workshops in New England in the year 1850 were women (Çitci, 1982, p. 17). Similarly, the percentage of female labor in the total labor market during the period from 1890 to 1945 constantly increased.

In addition low wages and poor working conditions that deteriorate their health statuses, women have also faced with difficulties of being waged laborer in their private lives. Interestingly, in many parts of capitalized Europe, the marriage of women working in certain jobs was conditioned, and quotas were imposed, or their marriage was the reason of dismissal (Scott, 2005, p. 63). For example, the marriage of women working in various working areas such as typewriter, dealer, waiter, teacher or civil servant was prohibited.

Since women's problems started enlarging from different aspects constituted a significant part of the labor market, it began to be a social problem. The expansion of the problem produced two types of reflexes, including organization and state intervention. In sectors such as textiles, where the majority of people were women, both more micro-scaled local and national unions begun to be established (Scott, 2005, p. 391). Women workers began to cluster around these unions, of which they became members. On the other hand, states started to make laws to protect the lives of women workers. For example, the "*Mines Law*", which forbade male children under 10 years of age and all women to work in 1842, and the "*Factory Law*", which forbade women workers to work at night in 1847 were made in England, "*Federal Law for Operation in Factories*" with the same content in Switzerland, and "*Factory Law*" which limited the working hours of older and married women in Germany were also made.

But, these laws could not create a better working environment for women due to their limited scope. The regulations kept limited mainly to sectors and factories where men were employed. While these laws could not provide a real improvement for women in their scope, they had no impact on the lives of women working in small-scaled production areas such as agriculture, home services, and family shops at all (Scott, 2005, p. 393).

On the other hand, patriarchy became one of the reasons for the negative situation of women. Most of the male unionists were in the tendency of protecting their salaries and works by keeping women far from the labor market (Milkman, 1976, p. 76). In the frames that social labor sharing created, they tried to detract women from production by claiming that women cannot be a productive and rational worker. According to men the lower salaries of women, which compete against "*the strong and valuable men labor which work for subsistence money*" and risks men's existence and salary in the long term, is so natural (Scott, 2005, p. 390). Therefore, it reminds that the place that women should be in is her home where she should manage the care of her family, not the production places like stores or factories.

Towards the end of the 19th century, the production moves from the sectors like clothing, tobacco, shoes which are mostly "*women's work*", uses woman labor mostly, to "*man work*" sectors like chemistry and automotive. The role of women's labor gets decreased parallel to the gender discrimination at work. However, later the world wars that are one after another increased the need for woman labor. Women took places of men in the war in all parts of the economy in general and especially in the war industry in private as a need of available conditions. 1.345.00 woman were included in the labor market in England. Similarly, in 1950, 50% of women between 15-64 in developing countries, and 47% in developed countries took place in working life (Koray, 2000, p. 213). Between the years 1940-1944, the number of women joining the salaried labor market increased by 50% (Milkman, 1976, p. 85). In addition, the wars burst through the sectoral and occupational limits that women were working. In war periods, the women occupy themselves with occupations like driving or operating an elevator; worked in various sectors like electrical devices, synthetic and food. (Çitçi, 1982, p. 18).

However, neither the numerical increase nor the variety of working areas became lasting for woman labor, they had to left their places to men quickly after the war. The working of women connected to the war economy is ended, women who are fired as masses are sent to their homes even though they did not want (Sharpe, 1976, pp. 27-28). Thus, women were seemed, as they are responsible for the joblessness in that period (Milkman, 1976, p. 76).

In addition to the two world wars, the 1929 Great Depression should be stated in terms of creating a fluctuation of woman labor usage. However, during the war, the number of women in work pointed between the joblessness reasons and women started to be fired beginning from married ones (Sharpe, 1976, p. 34). For example, the ratio of working women which is %14.2 in 1920 in the USA, went back to 12.3% when it comes to 1940 (Çitçi, 1982, p. 19). The tendency of public opinion was in the direction of women not working especially the married ones.

The fluctuating history of women's labor shows women's labor effecting from cyclic conditions most and making up the most fragile part of the market. From the Industrial Revolution to the end of Second World War, women's labor served to the market as alternative workers. It is applied when it is needed, and at the end, it is pushed outside of the market. In the continuing process, the tendency for increasing employment of woman labor had been seen related with the growth of capitalist economies. However, this tendency could not enlarge to reach a prohibiting ratio anytime. By 1970s, the changes in the way of production and spreading of capitalism to surroundings found out some changes in place of woman labor and increased the heaviness of woman labor in markets.

3. The Conversion of Women's Labor with Global Capitalism

The basic dynamic of enlargement of capitalism after the Second World War was the production fund being international. From the 1950s to the middle of 1960s the multinational companies that have private investments that seem like direct investments started to be an important power for the world economy (Mandel, 1974, pp. 23-24). At that time, the fund being international, foreign investments and improvement progression happened together.

However, with the 1970s, capitalism entered to a new crisis period, centralizing fund creating a plus value and the search for revaluation gat more fastened. In the end, the model of import-substitution industrialization showed as a source of the crisis and getting rid of the obstacles on the fund and export-led reconstruction are presented as solutions (Harvey, 2015, pp. 18-19). The existing of capitalism from the crisis was the fund flow to other countries. (Mandel, 2013, pp. 316-317). Organizations like IMF, WB, and WTO as the founder actors of the new system, enforced neoliberal policies to the countries that are articulated late especially to the capitalist system. By this means, the fund increased its ability of movement and shifted a part of production process especially the ones need labor, to the surrounding countries that have potential for cheap and wide labor potential (Wallerstein, 2011, pp. 62-63). The global capitalist progression that means spreading of capitalism across the world started to be called as globalization at the 1990s, in the sense of integrating production and consumption relations with goods and financing market (Yükseker, 2003, p. 37).

The reflection of the crisis on the labor market happened with the change in the manufacturing market. Massive manufacturing market achieving satisfaction caused mass production technologies in the crises being inadequate to decrease the costs, the product variety and newness forming the increasing international competition environment, production systems being fragmented and flexible. The production based on small-scaled and flexible specializing, that took the place of mass production, is provided by the units around the central unit that their speed is preprogrammed (sub-contracting business) and sub-contracts with international companies. This strategy enables to decrease the idle time that is showing up in the production process, the costs of labor force components like moving production place to home and removing stocks. At the same time, that strategy seemed like a solution to joblessness and unification of family and worked life by the process of capitalism reached by governments (Arat, 1997, p. 108).

The movement of fund beyond the borders and it is (global spreading of accelerating capitalism after the Cold War) put forward by it seem like the only way of combining national economies and international economies, the changes in the way of production and its reflection as employment caused restriction of area of state supervision (Aykaç Yanardağ, 2010, p. 200). The decreasing of labor-biased control of the government and the ex-post change in production strategy affected the labor market naturally primarily. In that new strategy the workers, instead of working a full day with some labor contracts in a known area where production occurs collectively, they started to work out of classical employment model like temporary or periodical work, part-time work, working at home, loan working relationship, piecework and telecommunicating. The new working strategy, generally affected their rights like organization and labor contract negative as it isolated workers from each other. The labor market started to be a more informal area. For example, the increasing of informal works through the years between the 1980s and 1990s, the proportion of informal works in the manufacturing industry by 1998 reached 53% (World Bank, 2003, p. 77). The real prices for labor started to be regressed as a result of all. However, women made up of the labor class, which it is affected more negatively based on patriarchy.

To indicate immediately, flexible labor type does not mean the same to early-capitalized countries like England, Germany or USA, and lately capitalized countries. For early-capitalized countries, it indicates the flexible work, the work that social security is limited in some criteria, half timed and costs low. In lately capitalized countries, it indicates the absence of social security especially for women and work that is deprived of social help and perquisites. The working style that is far from social security and continuity, the labor became more fragile.

The changes happening in the labor market affected woman negatively everywhere on the Earth, but it did not affect in the same way. The movement of a splinter of work and dense labor part that provides employment to developed places as a result of cheap labor caused labor excess in employment in central countries. As a result of the newly generated international labor division, the women started to be fired in Europe and USA (Mies, 1998, p. xv). Yet, if it will be gone to a narrowing in the labor market, patriarchy will send women to their "*real*" places as it happened in every level of the capitalist economy.

The situation of woman in less developed countries is in the opposite way. In the lately capitalized countries, women's labor became the locomotive of production that is based on exportation. Thousands of shops where women working opened in sectors which have dense labor production progress like food, clothing, outfit, plastic, chemistry and electronic. Women are employed in routine works like stitching, knitting, a montage of electronic pieces which are "*women's works*" (Seguino, 2000, p. 33). The number of women working in less developed Asian countries like South Korea, Malesia, Thailand, Philippines and Latin America countries like Mexico increased fast (Yaman Öztürk, 2010, p. 33). In fact, women working in sectors like textile and ready clothing reached to a majority like 80%s (Seguino, 2000, p. 33).

The woman working in their homes are carrying out a certain part of the production even they are in different ways. Generally, it is carried out with the practice of connected contacts, for example, a woman at home making some process of a blouse that is produced in a textile factory. The works at home involve a large range like cutting plastic gasket and pipe, making toys at home, packaging, crafts, making foodstuffs like meat pasty or pasty filling envelope, marketing, old care and translating (Karakoyun, 2007, p. 18).

With that working style, women have not been restricted to only known sectors; they are articulated to capitalist progress in relation to undeclared and disorganized work (Mies, 1998, p. x-xi). Yet women did not realize it caused by the collaboration of capitalism and patriarchy.

Women were defined not as workers but housewife even by themselves as there is no difference between their "*woman*" works that they are already doing and their jobs, they are making an extra income since they earn less than man and they are working part-time or periodically at their homes (Arat, 1997, p. 109). The relation that is named "*housewifization*" makes the women an invisible working class of capitalism (Mies, 1998, pp. 16-17).

The immigrant women made up of the last objects of women's labor being exploited in the informal area. With the globalization progress, the woman labor became moving, as it did not be before. The woman in surrounding countries who have a financial hardship and cannot get financial support for her kid from her male partner or do not have a partner, immigrate to developed countries to support their children, siblings or elders. The immigrant women in the increasing tendency, do not make any part of informal laborer mass except the inside home laborers like childcare or home serving. Sometimes those women are worked as sex laborers in where they have gone. To add, beside the childcare and cleaning, they are forced to work as sex laborers in the houses they are going. Services about "*being a woman*" are expecting from the woman labor flowing mostly from Philippines, India, and Sri Lanka to USA and Europe. Additionally, immigrant women working in other areas also made up of the laborers who work in worse conditions and get the least money as they accept to work with less price than the woman in the lowest class of market getting (Ehrenreich & Hochschild, 2002, p. 23).

Those women that are doing manufacturing in the sense of capitalism, on the basis of "*woman*" definition, they are excluded from the salaried labor market, and they are opened to exploitation as they are cheap, adaptive and easily manipulable submissive laborers (Mies, 1998, pp. 68-69). That situation of women increases the determination of the fund in two senses. Firstly, unregistered labor is weak and guardless against the fund. Yet in the area that is out of taxing, regulation and state intervention, the salaried laborer is devoid of social security, work security (Karakoyun, 2007, p. 18). Women are not getting organized and protecting their rights as a result of working places that are incorporeal from each other and women being unaware of the value of themselves in the economy (Yaman Öztürk, 2010, p. 42). Women laborer working in the informal area, especially the ones at home, cannot get benefit from regulations of government and syndication like minimum wage. Another way that increases the determination of fund, getting rid of costs like the common working place, travel expenses, tax liability, novation and protection of manufacturing machines in addition to the limitation of laborer's salary.

Flexible or informal as an application way and working in the axis of home, gained prevalence in short time as patriarchy and capitalism built them together. Thus, the woman serves patriarchy with her invisible labor, continuing her dependency to fund and her husband in the sense of decreasing costs and continuing to show men as the primary actors of the field. In the works in the axis of home, while they are at home, their real places, and doing their "*woman*" responsibilities, without looking at her proportion in the home economy, she is just providing side income and helping to her husband or father. To add, the heaviness of women in low salaried informal and flexible area deepens the difference between the salaries of women and men. This difference is a result that is for the benefit of both fund and patriarchy.

Conclusion

The hierarchical gender-biased relations came to today by ensuring every field of daily life. The factor today that is affected in the internalization of the inequality that is existing for a long time is the symbiotic relationship of capitalism and patriarchy. In the overwhelmed history of women, what gains to exploitation that belongs to capitalism is the restriction to women by their two roles in the society. Primarily, the woman is an inner-home laborer, and in this role, she is responsible primarily for keeping her labor force and reproducing it. In her second role, in the salaried labor market, she is a source of labor when it is needed. Women being the producer of that two labor which one is in private and the other in a public area, belongs to the capitalist system. Yet, the inequality between man and woman being structured, started with women doing a separation between home and workplace, the housework becoming private and separating it from the public while it dates before capitalism. However, in all cases, the women are dependent on the needs of the fund.

According to the narrowing and enlarging periods of capitalism and of course by the effect of patriarchy, the women labor could not show a steady improvement in the system. Capitalism waves, effects two dimensions of woman labor even it is separated based on the change inside the system and the production of usage value. First, in the narrowing periods of capitalism, economic problems were affecting women negatively and the women, which are included in the market from their homes, were pushed out of the labor market. The decreasing of women employment in private and all employment in general or the costs in the narrowing of capitalism, increasing their "*responsibilities*" at home while sabotaging the labor productivity in the public area. At those times, for example, tailoring knowledge to produce the clothes of children and health knowledge to make medical dressing was needed. The foods that are supplied from the fund before making the labor production denser like the necessity for providing the food need of a home with low costing procedures like conserving. However, in the periods of enlarging capitalism or men labor being inadequate like wars, the labor productivity of a woman in public areas increased. With the continuation responsibilities of the inner-home labor production, an increase like in narrowing period has not seem.

The zigzagging structure of women's labor in the labor market reveals out women seemed like "*alternative workers army*" in the labor market. Yet when it is needed, the woman labor included in the market then pushed out of it. However, especially after the 1980s, the increasing number of salaried women workers after the globalization of capitalism gets the attention. The transformation of labor dense part as a result production division to the surrounding countries, caused cheap woman labor force to pull in the market. For example, in 2014 all around the world, while the number of salaried or casual women worker is 4.627, men's is 12.499, it raised to 5.536 in women and 13.424 in men by 2017 (TSI, 2017). However, women continuing to be behind the man in the pricing of labor and joining to the labor force. Additionally, the increasing existence of women in manufacturing is the tendency of being dense in the informal area. The women's labor is moving to the informal area, and the function of alternative workers army puts women into a more fragile place in the labor market. For example, from 1998 to 2010, women are the majority of the nonprotected labor in the employment in the world (ILO, 2010, p. 53).

Nowadays, works about women in general and woman labor in special increases. However, thinking of a positive future for woman labor seems not possible. The working conditions being harder or the increasing number of women labor in cheap production being pushed back in a narrowing period is possible. That worsening is not just for the laborer women, but also for the women working in jobs, which has carrier opportunities, but the number of those women continues as a minority. Already processing patriarchal capitalist structure continues to interiorizing superiority relations. For that reason, they have to compete against not just capitalism, but also patriarchy simultaneously. However, with the minimalist perspective of war it should be spoken not just against men, but all the structures and objects that continues patriarchy. Yet, (regrettably), informing women who interiorized patriarchy by consciousness-raising became a part of the war.

References

Arat, N. (1997). Kadınlar Gündemi, Istanbul: Say.

Atasü Topçuoğlu, R. (2010). Kapitalizm ve Ataerkillik Erformel Alanda Nasıl Eklemlenir? Bilinçli Saklama ve Saklayarak Değersizleştirme Mekanizmasının Ev Eksenli Çalışmada İşleyişi. In S. Dedeoğlu & M. Yaman Öztürk (Eds.), Kapitalizm, Ataerkillik ve Kadın Emeği: Türkiye Örneği (pp. 81-133). Istanbul: Sosyal Araştırmalar Vakfı.

Aykaç Yanardağ, A. (2010). Karşılaştırmalı Bir Bakış Açısından Sosyal Güvenlik Reformunun Emek Piyasasına Etkisi, Toplum ve Bilim, 118, 198-220.

Başak, S., Kıngır, S. & Yaşar, Ş. (2013). Kadının Görünmeyen Emeği: İkinci Vardiya. ANKA Kadın Araştırma Merkezi. Available: https://bianet.org/system/uploads/1/files/attachments/000/001/012/original/anka_kad%C4%B1n_rapor_13-1_ikinci_vardiya_.pdf?1387185056 (Accessed 10 July 2018).

Benston, M. (1969). Political Economy of Women's Liberation, Monthly Review, 21(4).

Blau, F. D. & Kahn, L. M. (2000). Gender Differences in Pay, The Jounal Of Economic Perspectives, 14(4), 75-99.

Childe, G. V. (2009). Tarihte Neler Oldu? (A. Şenel & M. Tunçay, Trans). Istanbul: Kırmızı Yayınları.

CONSAD Research Corporation (2009). An Analysis of The Disparity in Wages Between Men And Women, Available: https://www.shrm.org/hr-today/public-policy/hr-public-policy-issues/Documents/Gender%20Wage%20Gap%20Final%20Report.pdf (Accessed 15 July 2018).

Çitçi, O. (1982). Kadın Sorunu ve Türkiye'de Kamu Görevlisi Kadınlar. Ankara: Sevinç Matbaası.

De Beauvoir, S. (2010). The Second Sex (C. Borde, Trans). New York: Vintage Books.

Delphy, C. (1980). The Main Enemy, Feminist Issues, 1(1), 23-40. Available: https://libcom.org/files/delphymainenemy.pdf (Accessed 18 July 2018).

Donovan, J. (2015). Feminist Teori (A. Bora, Trans). Istanbul: İletişim.

Dönmez Atbaşı, F. & Kurtulmuş M. M. (2012). Capitalism, Patriarchate and Women's Labor, Toplum ve Hekim, 27(4), 256-273.

World Bank. (2003). Bridging the Gender Gap in Turkey: A Milestone Toward Faster Socio-economic Develeopment And Poverty Reduction, Poverty Reduction and Economic Managemet Unit, Europe And Central Asia Region.

Ehrenreich, B. & Hochschild, A. (2002). Global Woman: Nannies, Maids and Sex Workers in The New Economy. New York: Henry Holt.

Engels, F. (2004). Origins of the Family, Private Property and the State. Newtown: El Faro Printing.

England, P. & Folbre, N. (1999). Who Should For The Kids?, The Annual Of The American Academy Of Political And Social Science, 563, 194-207. Available: https://www.jstor.org/stable/pdf/1048948.pdf?refreqid=excelsior%3A3b5cb2a268f986ffe68da2b50484ea41 (Accessed 22 July 2018).

Ergüneş, N. (2010). Kadınlara Yönelik Kredi Biçimleri ve Kadın Emeğinin Enformelleşmesi. In S. Dedeoğlu & M. Yaman Öztürk (Eds.), Kapitalizm, Ataerkillik ve Kadın Emeği: Türkiye Örneği (pp. 185-215). Istanbul: Sosyal Araştırmalar Vakfı.

Gilman, C. P. (1914). The Man-Made World or Our Androcentric Culture. New York: Charlton Company.

Gunter, N. C. & Gunter, B. G. (1990). Domestic Division of Labor Among Working Couples: Does Androgyny Make A Difference?, Psychology of Women Quarterly, 14(3). Available: http://journals.sagepub.com/doi/pdf/10.1111/j.1471-6402.1990.tb00025.x (Accessed 25 July 2018).

Hartmann, H. I. (1979). The Unhappy Marriage of Marxism And Feminism: Toward A More Progressive Union, Capital & Class, 3(2) 201-228. Available: http://journals.sagepub.com/doi/pdf/10.1177/030981687900800102 (Accessed 22 July 2018).

Harvey, D. (2015). Neoliberalizmin Kısa Tarihi (A. Onacak, Trans). Istanbul: Sel Yayıncılık.

Hochschild, A. & Machung, A. (1989). The Second Shift: Working Parents and The Revolution at Home. London: Penguin Books.

hooks, B. (2016). Feminizm Herkes İçindir: Tutkulu Politika (E. Aydın, B. Kurt, Ş. Özgün & A. Yıldırım, Trans). Istanbul: Bgst Yayınları.

ILO, (2010). Global Employment Trends, Available: http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_elm/---trends/documents/publication/wcms_120471.pdf (Accessed 21 March 2018).

Karakoyun, Y. (2007). Esnek Çalışma Yoluyla Kadınların İşgücüne Katılım Oranının ve İstihdamının Artırılması: İşkur'un Rolü (Unpublished dissertation). Türkiye İş Kurumu Genel Müdürlüğü, Ankara.

Koray, M. (2000). Sosyal Politika. Bursa: Ezgi Kitabevi.

Louw, E. & De Vries, P. (2010). Working at Home: The Dutch Property Dimension, Planning Practice & Research, 17(1), 17-30. Available: https://www.tandfonline.com/doi/pdf/10.1080/02697450220125050 (Accessed 20 July 2018).

Mandel, E. (1974). Avrupa Meydan Okuyor (T. Tayanç, Trans). Istanbul: Bilgi Yayınevi.

Mandel, E. (2013). Geç Kapitalizm (C. Badem, Trans). Ankara: Versus Kitap.

Marx, K. & Engels, F. (2016). Komünist Manifesto (M. Demir, Trans). Ankara: Nilüfer Yayıncılık.

Meda, D. (2004). Emek Kaybolma Yolunda Bir Değer mi? (I. Ergüden, Trans). Istanbul: İletişim Yayınları.

Mies, M. (1998). Patriarchy & Accumulation on a World Scale. London: Zed Books.

Milkman, R. (1976). Women's Work and Economic Crisis: Some Lesson of The Great Depression, The Review of Radical Political Economics, 8(1), 71-97. Available: http://journals.sagepub.com/doi/pdf/10.1177/048661347600800107 (Accessed 25 July 2018).

Reed, E. (1975). Women's Evolution from Matriarchal Clan to Patriarchal Family. New York: Pathfinder Press.

Rosenberg, N. & Birdzell Jr., L. E. (1992). Batı Nasıl Zengin Oldu: Endüstri Dünyasının Ekonomik Değişimi (E. Güven, Trans). Istanbul: Form Yayınları.

Scott, J. W. (2005). Kadın İşçi. In G. Duby & M. Perrot (Eds.), Kadınların Tarihi: Devrimden Dünya Savaşına Feminizmin Ortaya Çıkışı. Istanbul: Türkiye İş Bankası Kültür Yayınları.

Seguino, S. (2000). Accounting for Gender in Asian Economic Growth, Feminist Economics, 6(3), 27-58. Available: https://www.tandfonline.com/doi/pdf/10.1080/135457000750020128?needAccess=true (Accessed 22 July 2018).

Sharpe, S. (1976). Just Like a Girl How Girls Learn to Be Women. Middlesex: Penguin Book.

Stetson, C. P. (1898). Women and Economics. Boston: Small, Maynard & Company.

Şenel, A. (1982). İlkel Topluluktan Uygar Topluma: Geçiş Aşamasında Ekonomik Toplumsal Düşünsel Yapıların Etkileşimi. Ankara: A. Ü. Siyasal Bilgiler Fakültesi Yayınları.

Tekeli, Ş. (2017). Feminizmi Düşünmek. Istanbul: İstanbul Bilgi Üniversitesi Yayınları.

Tosun, M. (2014). Emeğin Fiziksel ve Toplumsal Görünmezliğinden Bir Kesit. In M. Yaman, G. Yarkın, G. Tuna & F. Ercan (Eds.), Emeğin Kitabı. İstanbul Sosyal Araştırma Vakfı.

TSI. (2017). İşgücü İstatistikleri: 2007-2016. Available: www.tuik.gov.tr (Accessed 20 March 2018).

Wallerstein, I. (2011). Dünya Sistemleri Analizi: Bir Giriş (E. Abadoğlu & N. Ersoy, Trans). İstanbul: Bgst Yayınları.

Yaman Öztürk M. (2010). Ücretli İş ve Ücretsiz Bakım Hizmeti Ekseninde Kadın Emeği: 1980'lerden 2000'lere. In S. Dedeoğlu & M. Yaman Öztürk (Eds.), Kapitalizm, Ataerkillik ve Kadın Emeği: Türkiye Örneği. Istanbul: Sosyal Araştırmalar Vakfı.

Yükseker, H. D. (2003). Laleli-Moskova Mekiği: Kayıtdışı Ticaret ve Cinsiyet İlişkileri. Istanbul: İletişim Yayınları.

Zetkin, C. (1996). Kadın Sorunu Üzerine. Istanbul: İnter Yayıncılık.

PART V.

CHAP 2.

GENDER DIFFERENCES IN EMPLOYMENT: THE CASE OF TURKEY

*Sinem Gözde BEŞBALLI**

Introduction

Although women have been an important part of production throughout history, the employment of female in the labor market materialized with the Industrial Revolution. Along with the mass production that started in European industry in this period, significant developments also took place in agriculture and the female labor force, which has been idled in the agriculture sector, migrated to the city and started to join the labor market. During this initial period of industrialization, the female labor force was employed especially in the manufacturing industry (specifically in the textile industry) under low wages and poor working conditions. Moreover, the significant part of female labor force began to work as cleaners in the service sector in the cities due to the manufacturing industry was unable to provide adequate employment opportunities for the female labor force of agricultural sector which has been idled. The process of industrialization and change of female's employment began in England, then spread to other European countries and the United States. In fact, the event that affected female participation in the labor market more than industrialization was the Second World War. During the war, female participation in the labor force increased significantly. The causes of this increase can be examined separately in terms of labor supply and labor demand. In terms of labor supply; the reasons for female entering the labor market are patriotism, the drop in the income of the family when men went to war, and the decrease in the work that female will do at home. From the point of view of labor demands; because of men went to war, labor demand and wages increased in the economy, which encouraged women to enter the labor market. Some of the women, who entered the labor market during the war, have returned home with the return of men after the war, but a significant part of them continued to work. Furthermore, experienced sectoral transformation in developed country economies since the 1950s has both increased female participation in the labor force and caused the composition of the labor force to change. In this period, the agricultural and industrial structure replaced with the service sector, which affected the female labor force participation positively. In the Fordist production system spread to all countries after the Second World War, which was in the decline in productivity

* Asst. Prof., Artvin Coruh University, Hopa Faculty of Economics and Administrative Science, Department of Economics, ORCID: 0000-0003-2367-7252, sinemgozde@artvin.edu.tr

from the beginning of 1970s and the expansion of international trade due to globalization and the increase in demand for products that have many specialties rather than standard products, have caused this system not to adapt to changing situations. The successful implementation of the flexible manufacturing system in this period, especially in Japan, has led other countries to change their production systems. Together with the flexible manufacturing system, enterprises have reduced the number of full-time employees, and have employed part-time and temporary staff increasingly. This new system has provided an important opportunity for females, especially who cannot join the labor market due to their family responsibilities, and the participation of female in the labor force has increased accordingly (Özer and Biçerli, 2003: 56-59).

The participation of female in the labor market has developed in parallel with industrialization in Turkey as it is in the whole world. In the Ottoman Empire, agriculture was at the forefront of female's traditional working areas. Especially in the last periods of the Empire, where small manufacturing was in agriculture, work in the agricultural sector took the form of unpaid family worker. The activities of carpet business and textile were among the traditional activities apart from agriculture. These activities were carried out in workshops established in houses or in small workshops, which do not bear the quality of factories, outside of the home. Among the female, who were working in such traditional activities, gainful occupation was widespread. Modern and large-scale industrial establishments, which used advanced production techniques compared to the period, started to be established within the industrialization efforts from the 19th century especially starting from the Tanzimat. Many female were employed in these facilities which had the qualification of factory. In the Empire, since the 19th century, there has been a steady increase in the number of female workers. Major reasons for the increase in the number of female workers include the decrease in male labor force due to the constant wars, the low wages of female, and the lower probability of female participating in trade union or trade union-like workers' organizations and their different activities. In the Republican era, the process of female's gainful employment in non-agricultural sectors continued at an accelerated pace. Upon this formation, changes in the social position of women as well as developments in non-agricultural areas of activity and the post-1930 statist economic policies have been influential (Makal, 2001: 119-121).

Participation of female in economic life is an aim to be willed in terms of ensuring gender equality and economic development. The introduction of female into the labor market will relatively compensate their economic position and ensure equality between male and female. As it is known, the most important condition of economic development is that the production factors should be used as far as at the highest possible level and efficiency. However, at the top of these factors, in the usage of labor force, there is an unbalanced distribution for the benefit of male in the terms of gender in all countries of the world. Hence, female's participation in the labor force will increase productivity and improve the development potential of the country.

Yet, the low levels of female labor force participation rate in Turkey is contrary to the objectives of equality and economic development. Although the role of female in development is included in the Five-Year Development Plans, the data show that female still have a low participation in the labor market.

There are too many studies in literature which examine the relationship between the labor force participation of female with economic growth or development. Some of them are those:

Er (2012), aimed to find whether education, employment, health and political factors related to women are significant to explain economic growth. Study contains the existing data of 187 countries between the years of 1998-2008. Panel data analysis is used as the method. According to the results from obtained data, several measurements like less fertility and more participation of female in assembly and female employment have significant impact on the economic growth of specific country.

Günsoy and Özsoy (2012), researched the impact of female labor force participation to the extent of their educational status on economic growth with VAR model between the years of 2005-2011 in Turkey. According to the result of the study, the most important variable which is significant on economic growth is the labor force participation rates of vocational high school graduate females. This is followed by the labor force participation rates of higher education graduate females.

Korkmaz and Dilbaz Alacahan (2013), tried to determine the relationship between female employment and total employment, and the impacts of employment on Gross Domestic Product (GDP). Female employment by sectors in Turkey, total employment number to cities and sectors, the number of insured people to cities, and jobless claims with GDP data are included to analysis with cross-sectional data method. Moreover, the values of employment to genders and the data of quarterly GDP between the years of 2008-2012 are used in regression model which analyzed the impacts of employment on GDP growth. Among the results of study is that in contrast with male employment, the impact of female employment on GDP is higher.

Aydın and Erdem (2014), examined the impacts of female employment on 10 countries with highest competitive powers and Turkey's competitive power with her economic growth according to the data of International Management Development Association. According to the results of the analysis, the female labor force participation affected competitive power positively in the countries which have more competitive power and when all countries are examined, it is identified that the impact of the labor force participation of female is undetermined in the countries which have less competitive power. It is concluded that the labor force participation of female has positive impact on economic growth on all country groups.

Kasa and Alptekin (2015), researched the impact of female labor force participation to the extent of their educational status on economic growth with VAR model between the years of 2000-2013 in Turkey. In the result of the study, it is concluded that the female labor force participation rate to the extent of their educational status declared economic growth as increasing rate in time.

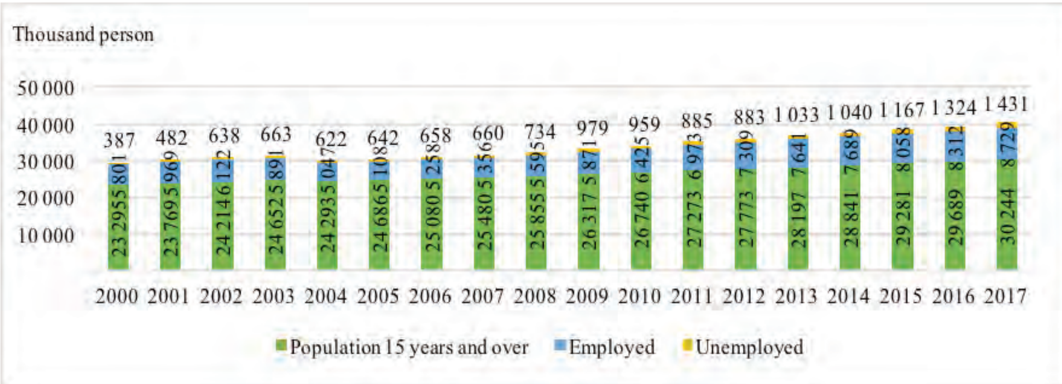
Serel and Özdemir (2017), examined the relationship between the variables of female employment, female unemployment and Real GDP with Turkish data for the period of 2000Q1 and 2013Q4 and with regression analysis. In the results of analysis, it is concluded that the increase in female employment enhanced Real GDP and the increase in unemployment decreased Real GDP.

In this study which aimed to find out the current status of female employment in Turkey, the status of female and male in labor market is examined comparatively through the obtained data from Turkish Statistical Institute. For this purpose, the labor force status of female and male, the labor force participation rates of female and male, the employment status of employed female and male, the employment status of female and male in agricultural sector and non-agricultural sectors, the sectoral distribution of employment in Turkey, the distribution of employed female and male by sector, the distribution of employed female and male in the service sector to the extent of the branches of economic activities, the distribution of employed female and male to the extent of their occupational fields, the unregistered employment rates to the extent of gender, the unregistered employment rates in agricultural sector and non-agricultural sectors to the extent of gender, the labor force participation rates of female and male to the extent of their educational status and the reasons of female and male who are not participating in labor force and who are not in labor force are analyzed with graphs comparatively. Study covers the period after 2000. Evaluating the similarities and differences from the results of these comparisons, this study aims to ensure for making more concrete assessments on female and male employment in Turkey.

Gender And Employment: Turkey

1. The Labor Force Status of Female and Male Population: There are differences between the female and male population of 15 years and over, the number of employees and the number of unemployed in Turkey. According to the results of Household Labor Force Survey of Turkish Statistical Institute, the progress of the female population of 15 years and over, the number of employed female, and the number of unemployed female between the years of 2000-2017 have been demonstrated in the Graph 1. According to Graph 1, the female population of 15 years and over, except 2004, displayed an upward tendency constantly. The population of female, from 23 million 295 thousand in 2000, reached 30 million 244 thousand in 2017. The number of employed female increased from 5 million 969 thousand to 6 million 122 thousand in 2002, yet, showed a downward tendency in the next two years. Since 2005, this number has increased steadily. When we look at the number of female unemployed, it is observed that there was a progress of decrease in 2004 and an increase since 2005. With the global economic crisis, the number of unemployed reached its peak in 2009. Even if there is a decline in the numbers of unemployed after the effect of crisis began to pass, in 2013, an increase can be observed again. The number of unemployed female has increased continuously from 2013 to the present day.

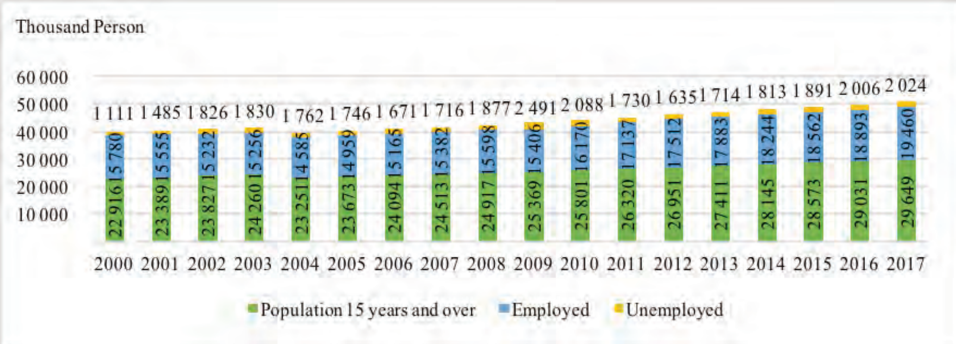
Graph 1. The Labor Force Status of Female Population: 2000-2017



Source: TURKSTAT, Labour Force Statistics

The progress of the male population of 15 years and over, the number of employed male, and the number of unemployed male between the years of 2000-2017 have been demonstrated in the Graph 2. According to Graph 2, like the above mentioned female population, the male population of 15 years and over displayed an upward tendency constantly except 2004. The male population of 22 million 916 thousand in 2000 reached 29 million 649 thousand in 2017. As for the number of employed male, it showed a downward tendency from 2000 to 2003. Although there is an increase in 2003, downward tendency will continue in 2004. From 2005 to 2009, it showed a constant increase but it decreased again in 2009. From 2010 to nowadays, it increases steadily. When the number of unemployed male observed, it can be seen that there is a constant flow. Like the abovementioned statistics of unemployed female, the number of unemployed male reached its peak in 2009 with the global economic crisis. Even though there is a decrease in the number of unemployed male during next three years, it peaked again in 2013. The number of unemployed male has increased continuously from 2013 to the present day.

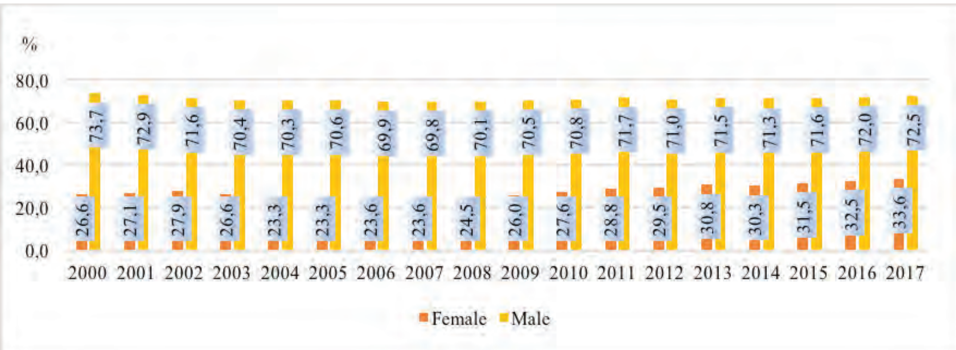
Graph 2. The Labor Force Status of Male Population: 2000-2017



Source: TURKSTAT, Labour Force Statistics

2. The Labor Force Participation Rates of Female and Male: The rate of the labor force (the sum of employed and unemployed) to the population aged 15 years and over gives the labor force participation rate for this age group. The rate of female labor force to female population is defined as the ratio of female labor force participation; the rate of male labor force to male population, is defined as the ratio of male labor force participation. These ratios indicate the probability that a female or a male is working (Tansel, 2002: 4). The progress of the labor force participation rates for female and male who are 15 years and over between 2000 and 2017 has been demonstrated in Graph 3. While the labor force participation rate of females was 26.6 percent in 2000, it reached 33.6 percent at the end of 2017. Male labor force participation rate was 73.7 percent in 2000 and 72.5 percent at the end of 2017. Hence, approximately 50 percent of the population of Turkey is female, yet, the labor force participation rate of females is even less than half of the male's participation rates.

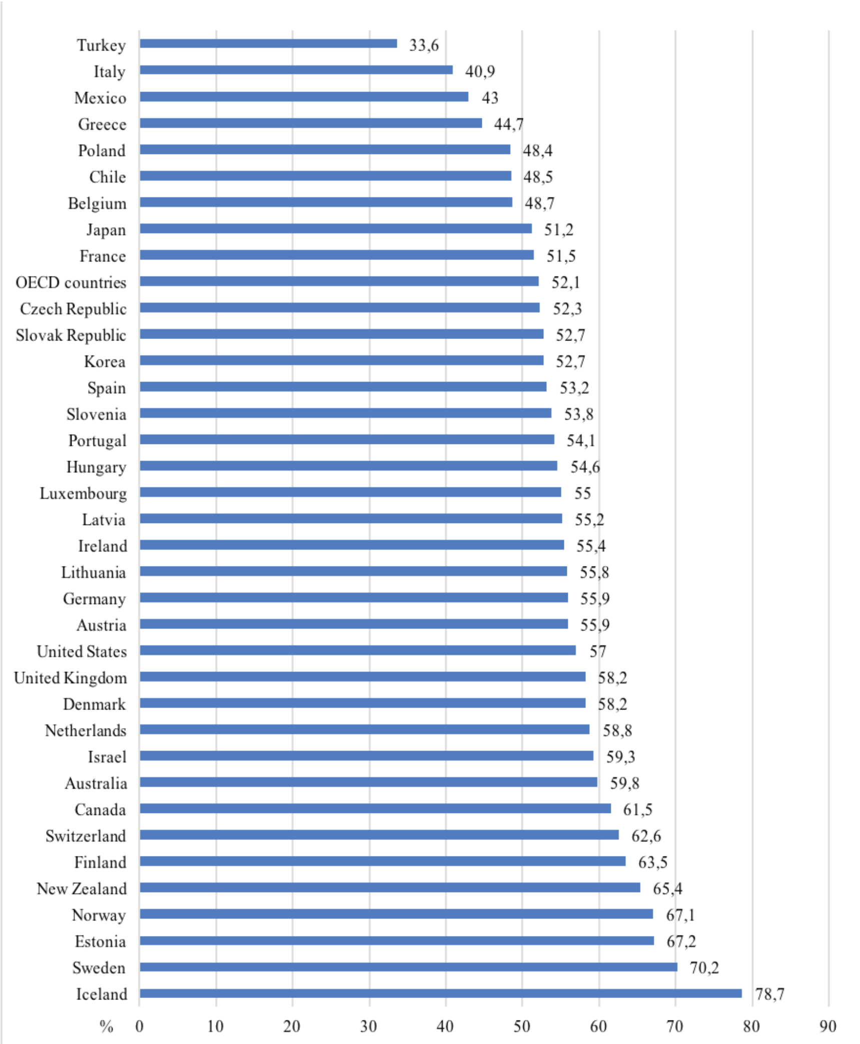
Graph 3. The Labor Force Participation Rates of Male and Female: 2000-2017



Source: TURKSTAT, Labour Force Statistics

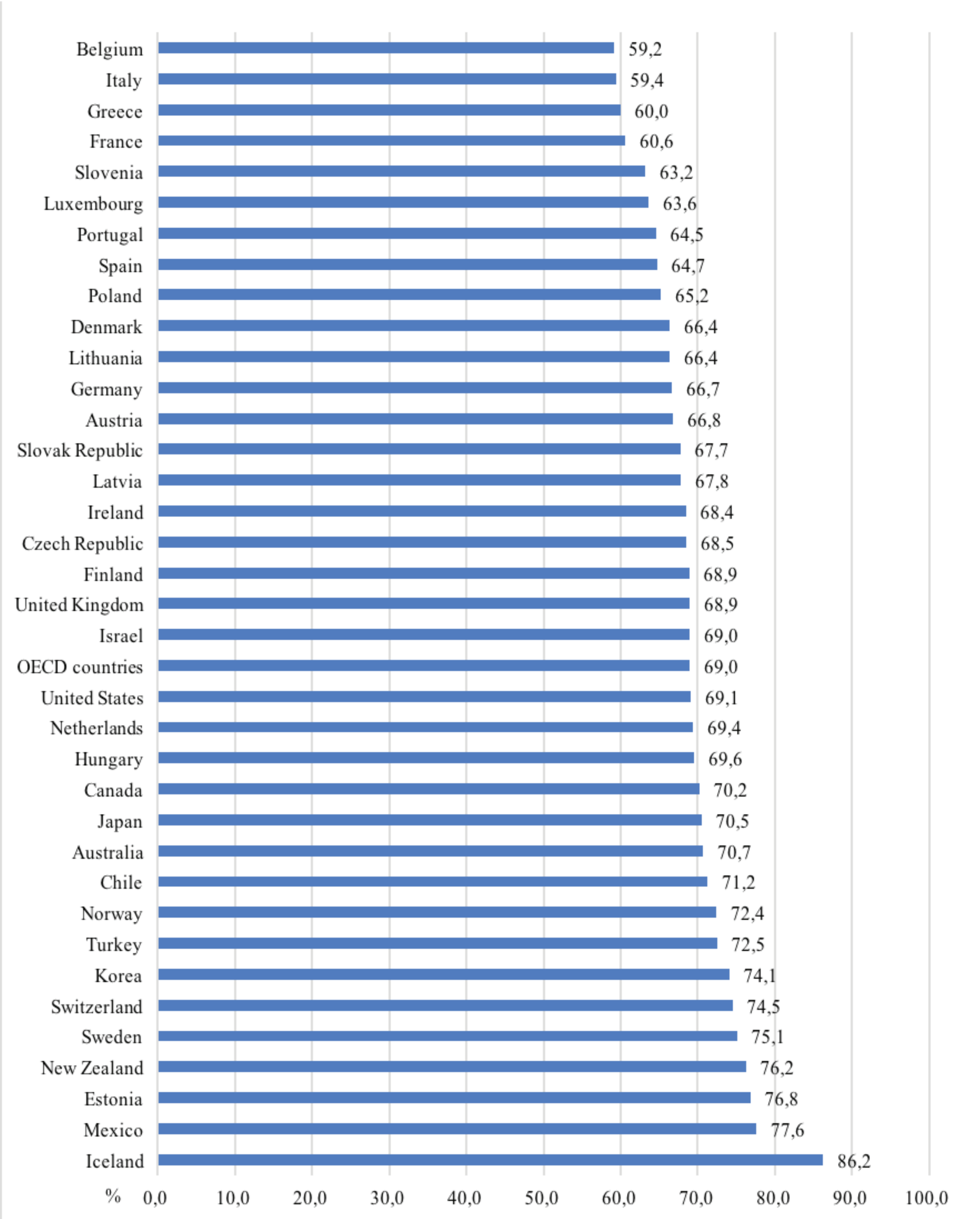
When the labor force participation rates of female aged 15 years and over in Turkey is compared with other OECD countries, they are quite low. The labor force participation rates of female in OECD countries for 2017 have been demonstrated in Graph 4. According to Graph 4, the highest female labor force participation rates among 36 OECD countries are in order of Iceland, Sweden and Estonia. In case of Turkey, she is in the last row and her rates are quite below than the average of OECD. However, it is different for the male labor force participation rates. The labor force participation rates of male in OECD countries for 2017 have been demonstrated in Graph 5. According to Graph 5, the highest male labor force participation rates among 36 OECD countries are in order of Iceland, Mexico and Estonia. In case of Turkey, she is in the eight row and her rates are above than the average of OECD.

Graph 4. The Female Labor Force Participation Rates in OECD Countries: 2017



Source: OECD, https://stats.oecd.org/viewhtml.aspx?datasetcode=LFS_SEXAGE_I_R&lang=en# (20.07.2018)

Graph 5. The Male Labor Force Participation Rates in OECD Countries: 2017



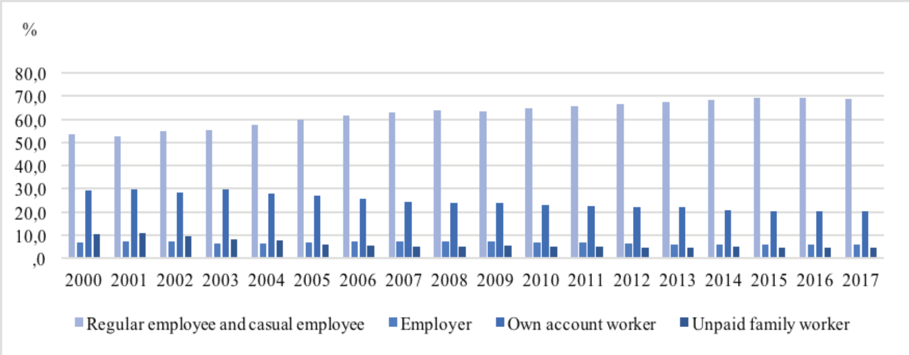
Source: OECD, https://stats.oecd.org/viewhtml.aspx?datasetcode=LFS_SEXAGE_I_R&lang=en# (20.07.2018)

3. The Employment Status of Employed Female and Male: There are differences between the employment status of employed male and female in Turkey. The progress of the employment status of employed male and female between the years of 2000-2017 has been demonstrated in Graph 6 and Graph 7 respectively. When the status of employed female is observed, in the beginning, the rate of female who is working as unpaid family worker is high. By years, while there is an increase in the rates of both regular and casual female employees, the rates of unpaid family workers, employers, and own account workers female decreased. In 2000, regular and casual employees were 35.3 percent, employers and own account workers were 12.1 percent, and unpaid family workers were 52.1 percent composed in the total rates of workers. By the end of 2017, regular or casual employees were 63.4 percent, employers and own account workers were 10.7 percent, and unpaid family workers were 25.9 percent composed in the total rates of workers. Hence, in 2017, regular and casual employees became more than unpaid family workers. When the status of employed male is observed, in the beginning, the rate of male who is working as regular or casual employees are high. By years, while there is an increase in this rate, the rate of unpaid family workers, employers and own account workers decreased. In 2000, regular and casual employees were 53.5 percent, employers were 6.8 percent, own account workers were 29.3 percent and unpaid family workers were 10.4 percent composed in the total rates of workers. By the end of 2017, regular and casual employees were 69 percent, employers were 6 percent, own account workers were 20.5 percent and unpaid family workers were 4.5 percent composed in the total rates of workers.

Graph 6. Employment Status of Employed Females: 2000-2017

Source: TURKSTAT, Labour Force Statistics

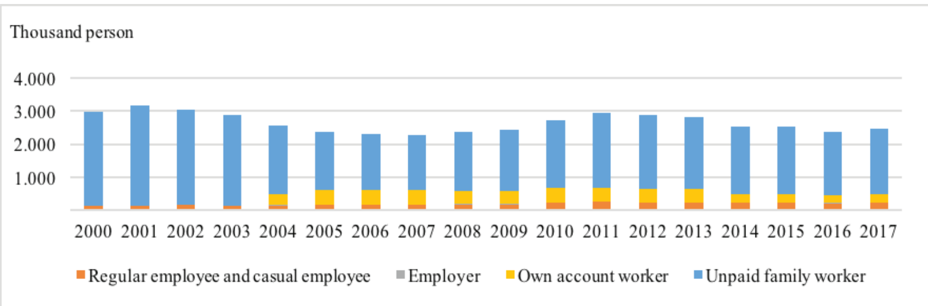
Graph 7. Employment Status of Employed Males: 2000-2017



Source: TURKSTAT, Labour Force Statistics

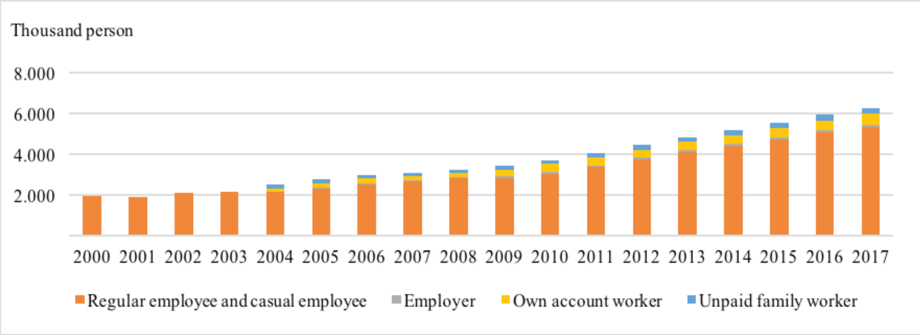
4. The Employment Status of Employed Male and Female in Agricultural Sector and Non-Agricultural Sectors: When the employment status of female and male are observed in the recent years, although it is seen that both regular employees and casual employees are more than unpaid family workers, it differs on sectoral basis. The progress of the employment status of male and female in agricultural sector or non-agricultural sectors between the years of 2000-2017 is demonstrated in Graph 8, 9, 10, and 11. When it is observed on sectoral basis, although among the female in the agricultural sector who are working as unpaid family workers have a downward tendency, when it is compared to other sectors, it is still high. Although the numbers of female regular and casual employees have an upward tendency, it is still pretty low. Non-agricultural sectors, however, have a reverse situation. In those sectors, while regular and casual employees are relatively high when it is compared to others, the numbers of unpaid family workers are low. When it is compared to others, own account workers are relatively high among the male in the agricultural sector. When non-agricultural sectors are observed, the numbers of male regular or casual employees are relatively high when it is compared to others.

Graph 8. Employment Status of Employed Females in Agricultural Sector: 2000-2017



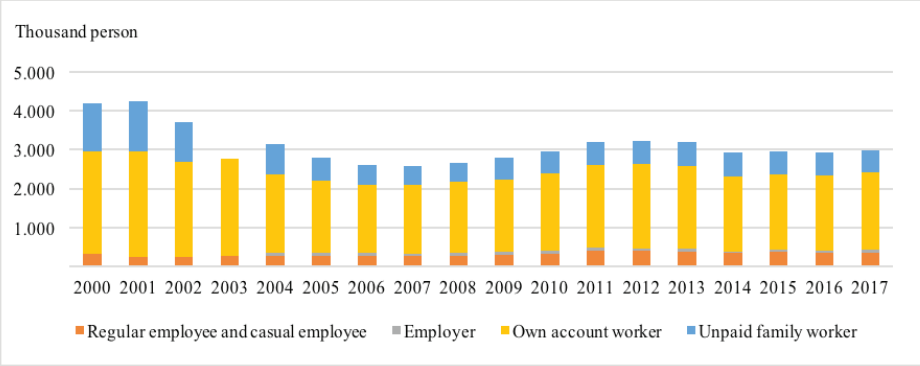
Source: TURKSTAT, Labour Force Statistics

Graph 9. Employment Status of Employed Females in Non-Agricultural Sectors: 2000-2017



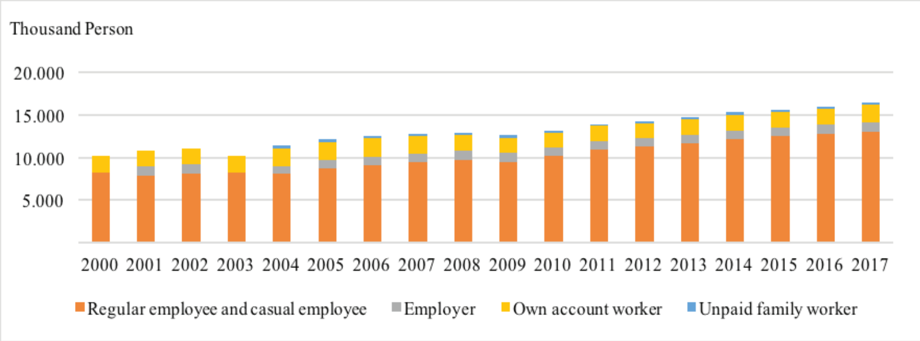
Source: TURKSTAT, Labour Force Statistics

Graph 10. Employment Status of Employed Males in Agricultural Sector: 2000-2017



Source: TURKSTAT, Labour Force Statistics

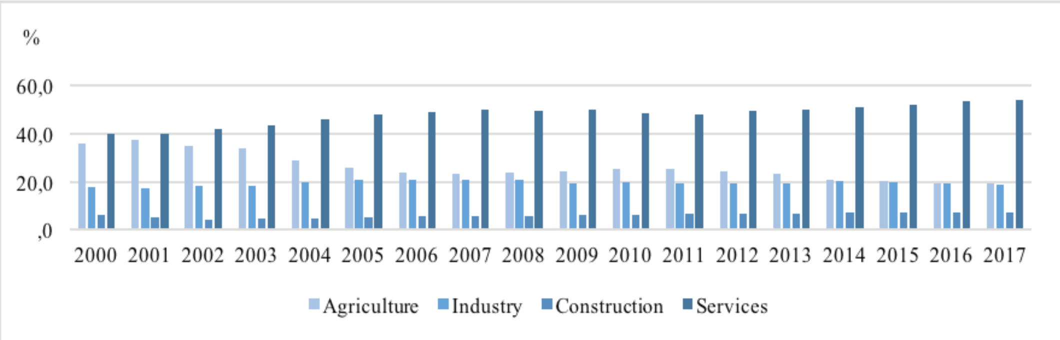
Graph 11. Employment Status of Employed Males in Non-Agricultural Sectors: 2000-2017



Source: TURKSTAT, Labour Force Statistics

5. The Sectoral Distribution of Employment in Turkey: The sectoral distribution of employment is among the indicators of economic growth and development. Depending on economic growth and development, the changes occurred in the distribution of employment to the extent of sectors. In this process, while employment increased in industrial and service sectors, it decreased in agricultural sector. The developments of employment in sectoral distribution in Turkey between the years of 2000-2017 have been demonstrated in Graph 12. According to Graph 12, in response to the increased employment of constructional, industrial and service sectors, the employment of agricultural sector decreased. The rates of employment in agricultural, industrial, constructional and service sectors have been given in Graph 12 respectively. In 2000, the percentages of sectors of agriculture was 36, industry was 17.7 percent, construction was 6.3 percent and service was 40. In 2017, the percentages of sectors of agriculture was 19.4, industry was 19.1, construction was 7.4 and service was 54.1.

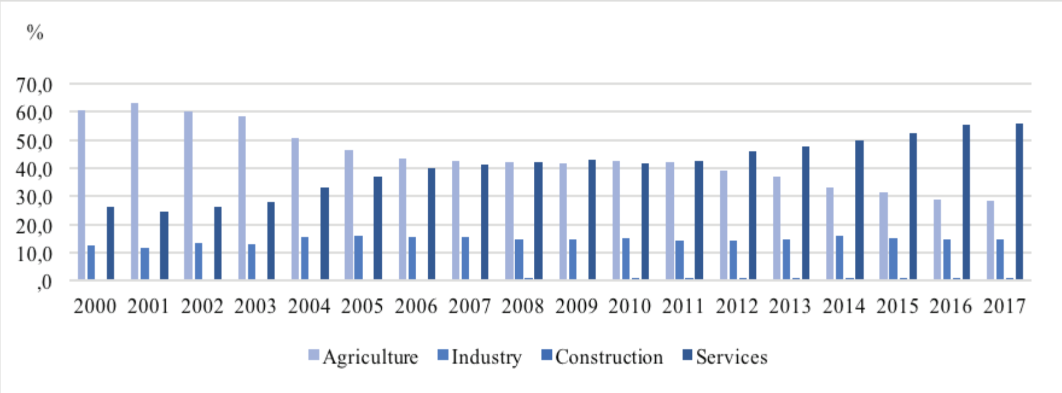
Graph 12. The Sectoral Distribution of Employment in Turkey: 2000-2017



Source: TURKSTAT, Labour Force Statistics

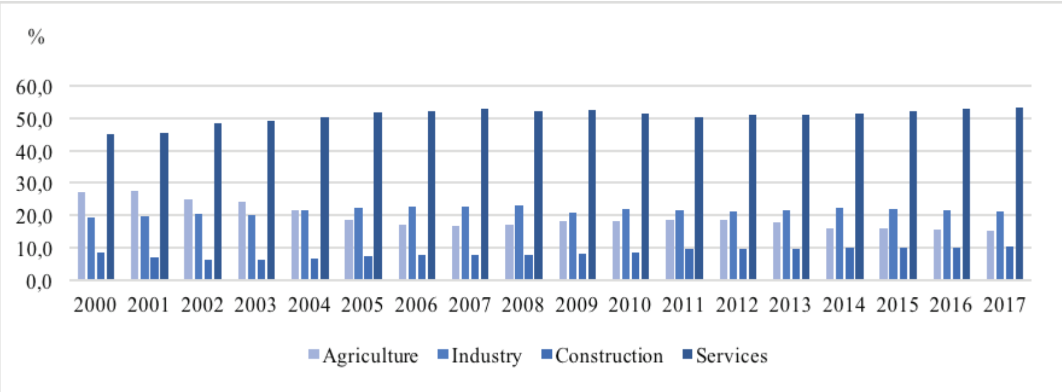
6. The Distribution of Employed Female and Male by Sectors: There are differences the distributions of employed male and female to the extent of sectors in Turkey. This situation has been demonstrated in Graph 13 and 14. When the distributions of employed male and female to the extent of sectors are observed, while there is a downward tendency on total male and female employees in agricultural sector, the rate of employees in service sector has an upward tendency. While the employed female were 60.5 percent and employed male were 27 percent in agricultural sector in 2000, the percentage of employed female became 28.4 and the percentage of employed male became 15.4 in agricultural sector in 2017. While the employed female were 26.4 percent and employed male were 45 percent in service sector in 2000, the percentage of employed female became 56.1 and the percentage of employed male became 53.2 in service sector in 2017. When the distribution of employed female to the extent of sectors in 2017 is analyzed, it can be seen that the sectors of service and agriculture are followed by industrial and constructional sectors respectively. In the same year, when the distribution of employed male to the extent of sectors is analyzed, it can be seen that the service sector is followed by industrial, agricultural and constructional sectors respectively. The rates of employed male and female in industrial sector in 2017 were 14.6 percent and 21.1 percent respectively. In the same year, the rates of employed male and female in constructional sector were 0.9 percent and 10.3 percent respectively.

Graph 13. The Distribution of Employed Females to the Extent of Sectors: 2000-2017



Source: TURKSTAT, Labour Force Statistics

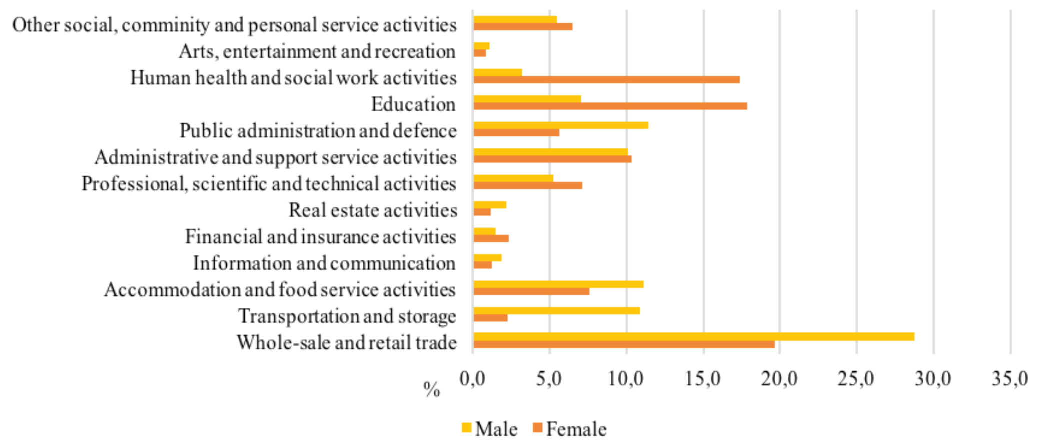
Graph 14. The Distribution of Employed Males to the Extent of Sectors: 2000-2017



Source: TURKSTAT, Labour Force Statistics

7. The Economic Activity Branches of Employed Male and Female in Service Sector: Male and female in the service sector have differences in the economic activity branches which they are employed. The distribution of employed male and female in the service sector to the extent of the branches of economic activities in 2017 has been demonstrated in Graph 15. Females were employed in 19.6 percent in whole-sale and retail trade, 17.9 percent in education, and 17.4 percent in human health and social work activities in service sector in 2017. In the same year, males were employed in 28.7 percent in whole-sale in retail trade, 11.4 percent in public administration and defense and, 11.1 percent in the businesses of accommodation and food services. The activities of art, entertainment and recreation are in last place for both male and female.

Graph 15. The Distribution of Employed Males and Females at the Service Sector to the Extent of the Branches of Economic Activities: 2017

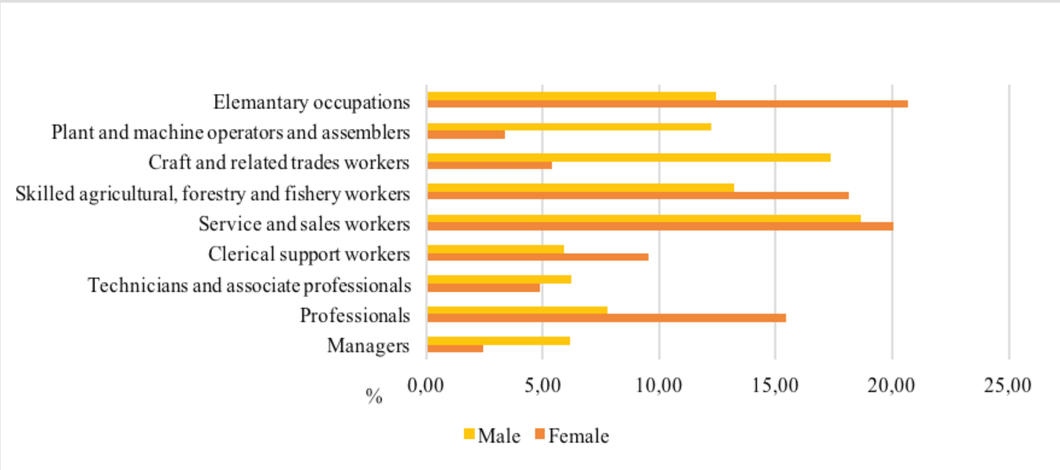


Source: TURKSTAT, Labour Force Statistics

Male and female, who are in the industrial sector in 2017, were employed respectively; 97 percent and 90.8 are in manufacturing industry, 2.4 percent and 6 percent in electricity, gas, steam, water supply and sewerage activities, and 0.6 percent and 3.2 percent in mining and quarrying.

8. The Occupational Fields of Employed Female and Male: There are differences for the distribution of employed male and female to the extent of their occupational fields in 2017. This situation has demonstrated in Graph 16. In 2017, while 20.67 percent of female were employed in elementary occupation, 20.07 percent of them were employed as service employees and saleslady. The female who were employed as manager was 2.44 percent. In the same year, 18.65 percent of male were employed as service employees and salesman, and 17.36 percent of them were employed as crafts or related trades workers.

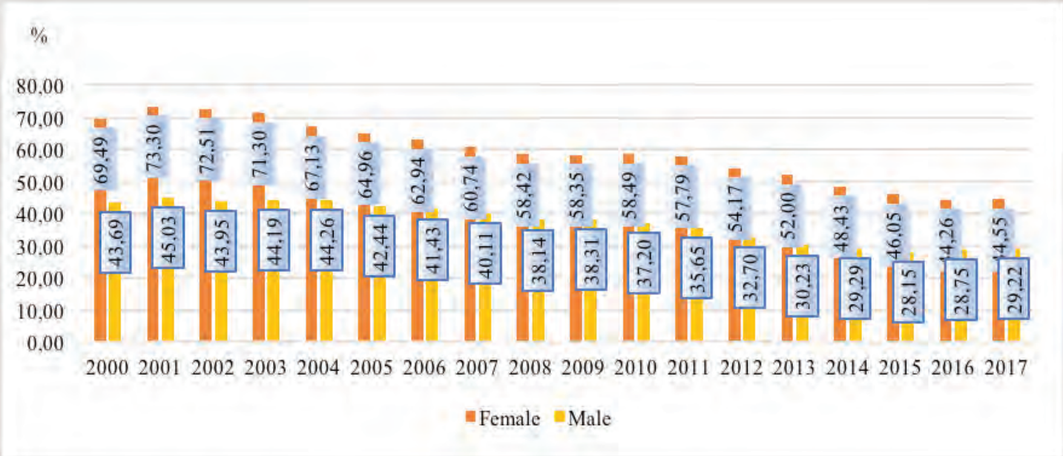
Graph 16. The Distribution of Employed Males and Females to the Extent of Their Occupational Field: 2017



Source: TURKSTAT, Labour Force Statistics

9. The Unregistered Employment Rates to the Extent of Gender: The unregistered employment rates differ to the extent of gender. The developments of the unregistered employment to the extent of gender between the years of 2000-2017 have been demonstrated in Graph 17. According to the Graph 17, the unregistered employment rate of females is quite higher than the rate of males. The unregistered employment rate of females was 69.49 percent and the unregistered employment rate of males was 43.69 percent in 2000. From 2000 until 2017, 25 percent decrease in the unregistered employment rates of female and 15 percent decrease in the unregistered employment rates of male happened.

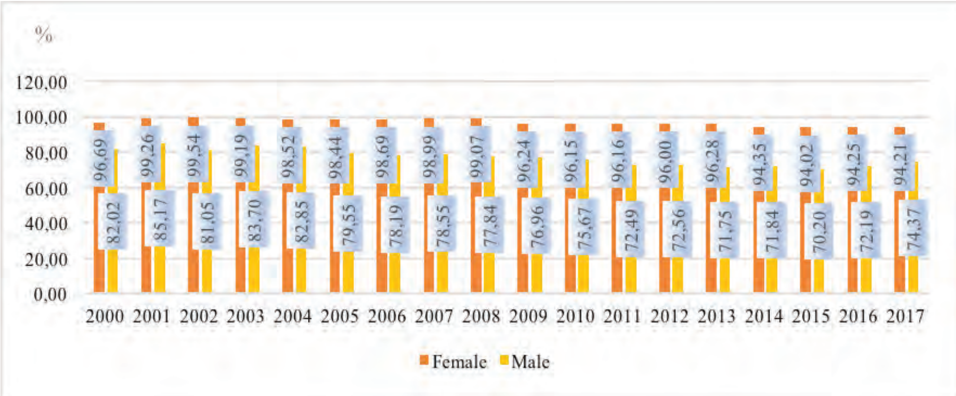
Graph 17. The Unregistered Employment Rates to the Extent of Gender: 2000-2017



Source: TURKSTAT, Labour Force Statistics

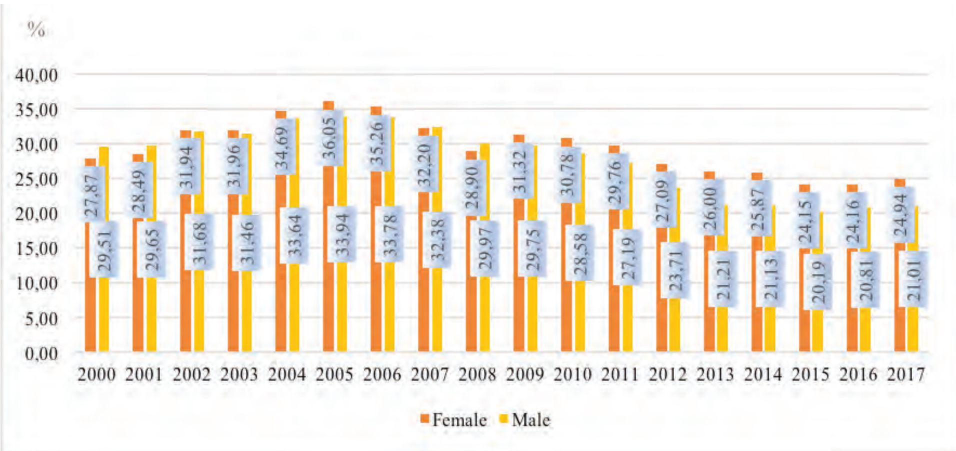
10. The Unregistered Employment Rates in Agricultural Sector and Non-Agricultural Sectors to the Extent of Gender: The progress of the rates of the unregistered employment rates in agricultural and non-agricultural sectors to the extent of gender between the years of 2000-2017 has been demonstrated in Graph 18 and Graph 19. The rates of unregistered employment rates of female and male are quite high especially in agricultural sector. While the unregistered employment rate of males in agricultural sector was 82.02 percent in 2000, it fell to 74.37 percent with approximately 8 percent decrease in 2017. In case of the unregistered employment rate of females, it merely decreased 2.5 percent from 2000 until nowadays and it became 94.21 percent. The unregistered employment rates of female are more than the rates of male in non-agricultural sectors except some years. Moreover, the unregistered employment rates of female did not change much like the unregistered employment rates of female in agricultural sector from 2000 to nowadays.

Graph 18. The Unregistered Employment Rates in Agricultural Sector to the Extent of Gender: 2000-2017



Source: TURKSTAT, Labour Force Statistics

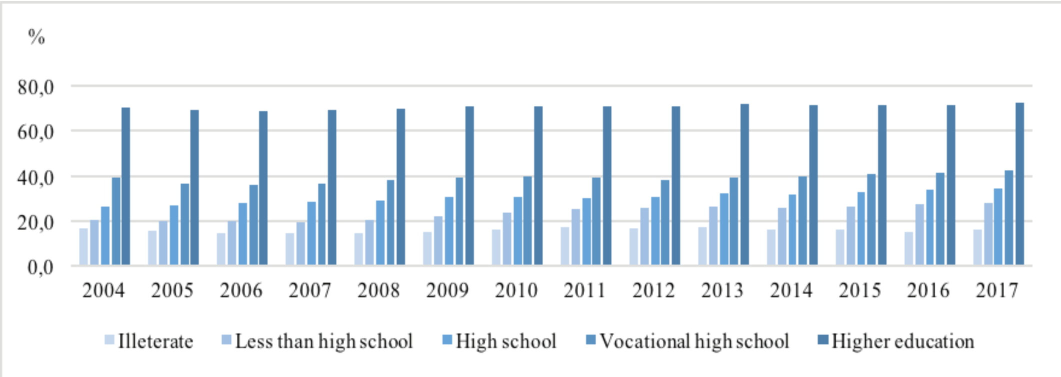
Graph 19. The Unregistered Employment Rates in Non-Agricultural Sectors to the Extent of Gender: 2000-2017



Source: TURKSTAT, Labour Force Statistics

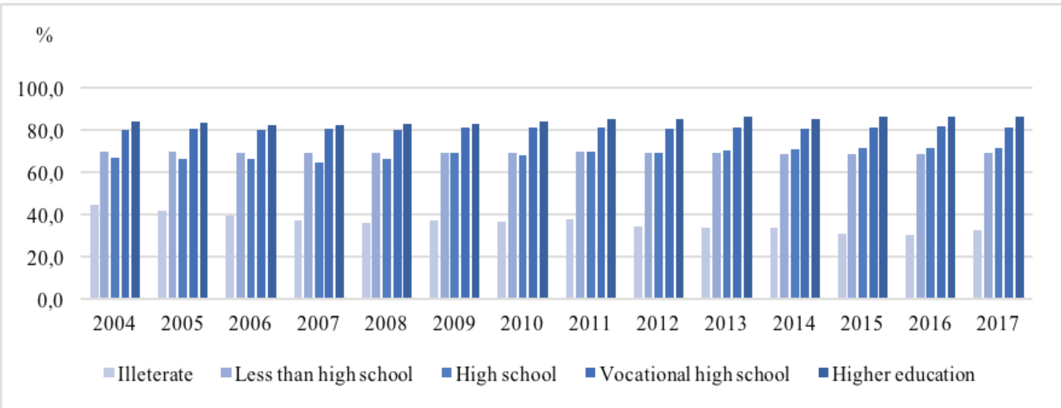
11. The Labor Force Participation Rates of Male and Female to the Extent of Their Educational Status: There are differences in the labor force participation rates of male and female to the extent of their educational status. The labor force participation rates of male and female to the extent of educational status between the years of 2004-2017 have been demonstrated in Graph 20 and Graph 21. The reason why the previous period is not included in the graphs is that no distinction was made along with high schools and vocational high schools. For the period of 2004-2017, while the labor force participation rate of illiterate females is 15.8 percent and the labor force participation rate of illiterate males is 36.1 percent on average respectively, the labor force participation rate of females with education less than high school was 23.6 percent and the labor force participation rate of males with education less than high school is 69.2 percent respectively, the labor force participation rate of females with high school education is 30.3 percent and the labor force participation rate of males with high school is 68.7 percent respectively, the labor force participation rate of females with vocational high school education is 39.1 percent and the labor force participation rate of males with vocational high school is 80.8 percent, and the labor force participation rate of females with higher education is 70.7 percent and the labor force participation rate of males with higher education is 84.5 percent.

Graph 20. The Participation Rate of Females to the Extent of Their Educational Status: 2004-2017



Source: TURKSTAT, Labour Force Statistics

Graph 21. The Participation Rate of Males to the Extent of Their Educational Status: 2004-2017

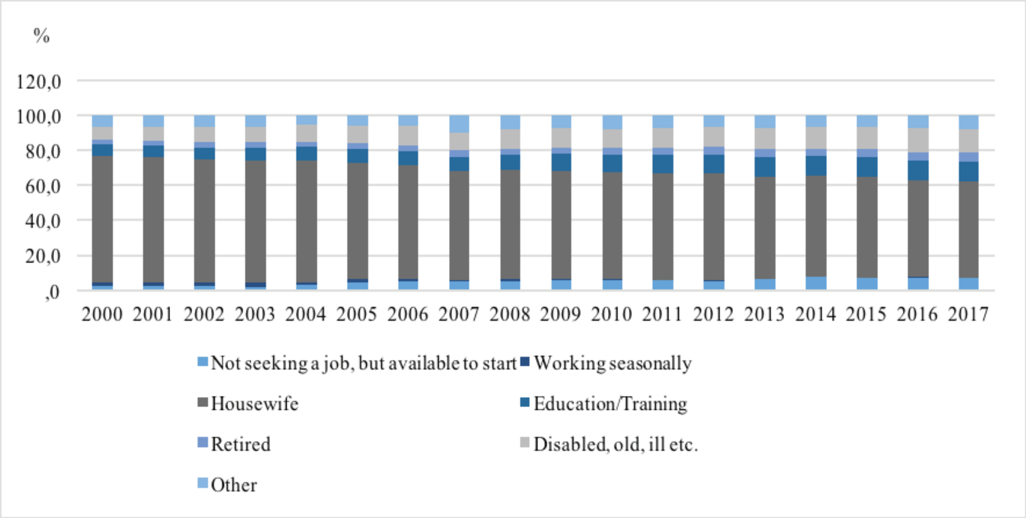


Source: TURKSTAT, Labour Force Statistics

12. The Reasons of Females and Males Who are not Participating in Labor Force, and who are not in Labor Force: There are differences among the reasons of males and females who is not participating in labor force, and who is not in labor force. Among the population of female who is not in labor force for the period of 2000-2017, the reasons of these female, who is not participating in labor force, have been demonstrated proportionally in Graph 22. According to Graph 22, while the rate of female who are not seeking jobs but available to start within the female population which are not in the labor force was 2.5 percent in 2000, it became 6.8 percent in 2017. The rate of seasonal workers decreased by years and while this rate was 2.0 percent in 2000, it became 0.3 percent in 2017. There is a constant increase by years for the rate of females who are not in labor force because of education. While this rate was 6.7 percent in 2000, it increased to 11.3 percent in 2017. There is a constant increase by years for the rate of female who are not in labor force because they are retired or disabled. While the rates of them who are not in labor force because they are retired was 2.6 percent in 2000, it became 5.2 percent in 2017, and while the rate of them who are not in labor force because they are disabled was 7.9 percent in 2000, it became 13.4 percent in 2017. The female's, who are not in labor force, paramount reason to not participate in labor force is because they are busy with chores. While the rate of female, who are not in labor force because they are busy with chores, was 72.1 percent in 2000, this rate demonstrated a decrease by years, and it became 55.4 percent in 2017. Although this rate demonstrated a decrease by years, it is still the most significant reason for female who do not participate in labor force.

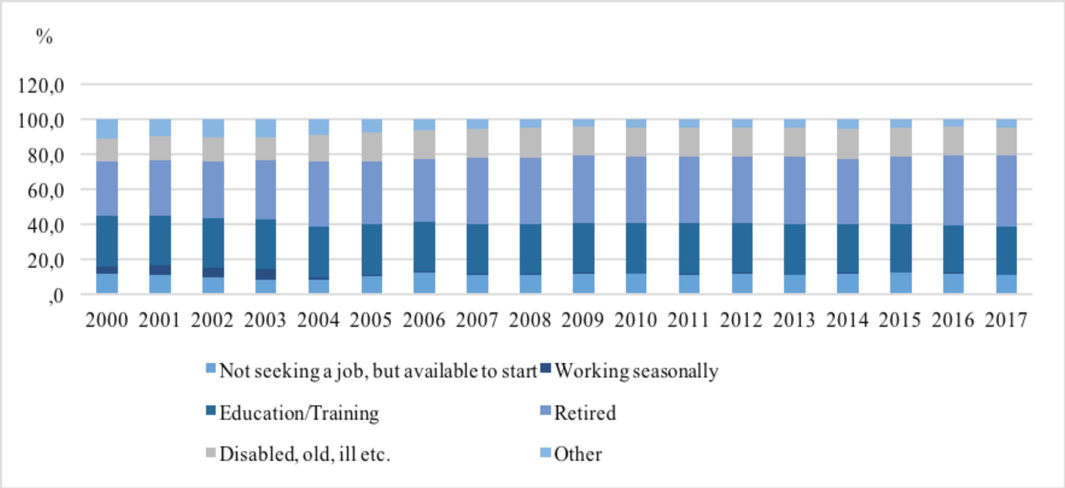
Among the population of male who is not in labor force for the period of 2000-2017, the reasons of these male, who is not participating in labor force, have been demonstrated proportionally in Graph 23. According to Graph 23, the rate of male who are not seeking jobs but available to start within the male population which are not in the labor force did not change so much. While this rate was 11.8 percent in 2000, it became 11.1 percent in 2017. The rate of seasonal workers decreased by years and while this rate was 4.3 percent in 2000, it became 0.3 percent in 2017. While the rate of males who are not in labor force because of education was 29.1 percent in 2000, it became 27 percent in 2017. While the rate of them who are not in labor force because they are disabled, was 13.5 percent in 2000, it became 16.1 percent in 2017. Being retired is the most important reason for the males who are not in labor force. While the rate of males who are not in labor force because they are retired, was 30.5 percent in 2000, it increased to 40.7 percent in 2017.

Graph 22. Reasons of Females Who are not Participating in Labor Force and, who are not in Labor Force: 2000-2017



Source: TURKSTAT, Labour Force Statistics

Graph 23. Reasons of Males Who are not Participating in Labor Force and, who are not in Labor Force: 2000-2017



Source: TURKSTAT, Labour Force Statistics

Conclusion

The study aimed to reveal the current status of female employment in Turkey through the obtained data from the results of Turkish Statistical Institute's Household Labor Survey and the status of female and male in labor market is examined with several aspects comparatively. For this purpose, the labor force status of female and male, the labor force participation rates of female and male, the employment status of employed female and male, the employment status of female and male in agricultural sector and non-agricultural sectors, the sectoral distribution of employment in Turkey, the distribution of employed female and male by sector, the distribution of employed female and male in the service sector to the extent of the branches of economic activities, the distribution of employed female and male to the extent of their occupational fields, the unregistered employment rates to the extent of gender, the unregistered employment rates in agricultural sector and non-agricultural sectors to the extent of gender, the labor force participation rates of female and male to the extent of their educational status and the reasons of female and male who are not participating in labor force and who are not in labor force are analyzed with graphs comparatively. Study covers the period after 2000.

According to the results of Turkish Statistical Institute's Household Labor Survey, while the female and male population of 15 years and over was 23 million 295 thousand and 22 million 916 thousand in 2000 respectively, it became 30 million 244 thousand and 29 million 649 thousand in 2017 respectively. While the numbers of employed female were 5 million 801 thousand and the numbers of employed men were 15 million 780 thousand in 2000, the numbers of employed female became 8 million 729 thousand and the numbers of employed men became 19 million 460 thousand in 2017. While the numbers of unemployed female were 387 thousand and the numbers of unemployed men were 1 million 111 thousand in 2000, the numbers of unemployed female became 1 million 431 thousand and the numbers of unemployed male became 2 million 024 thousand in 2017. The labor force participation rates of female and male were 26.6 percent and 73.7 percent respectively in 2000 respectively and it became 33.6 percent and 72.5 percent in 2017 respectively. Therefore, the labor force participation rate of females is even less than half of the male's rate in Turkey where 50 percent of the population is female.

There are differences between the employment status of employed males and females in Turkey. When the employment status of employed female is observed among the total quantity of workers, the rate of unpaid family workers are more than regular or casual employees in 2000 but this condition reverse in 2017. When the employment status of employed male is observed among the total workers, the rate of regular or casual employees are higher than unpaid family workers in both 2000 and 2017. When the employment status of male and female regular or casual employees are observed in recent years, although regular and casual employees are more than unpaid family workers, this condition differs on sectoral basis. When it is observed on sectoral basis, although the unpaid family workers have a downward tendency among the female who are working in agricultural sector, it is still too high in rates, and although regular or casual employees have an upward tendency among the female, it still too low in rates. In non-agricultural sectors, however, the numbers of regular or casual employees among female are dominant when it is compared to other statistics, and the unpaid family workers among female are lower. While the numbers of own account workers are high among the male who are working in agricultural sector, the numbers of regular or casual employees among the male are relatively high in non-agricultural sectors.

There are differences the distributions of employed male and female to the extent of sectors in Turkey. When the distributions of employed male and female by sectors are observed, while the rate of male and female employees from agricultural sector in total demonstrates a downward tendency, the rate of employees in service sector displays an upward tendency. While the rate of employed female is 60.5 percent and the rate of employed male is 27 percent in agricultural sector in 2000, the rate of employed female become 28.4 percent and the rate of employed male become 15.4 percent in agricultural sector in 2017. While the rate of employed female is 26.4 percent and the rate of employed male is 45 percent in service sector in 2000, the rate of employed female become 56.1 percent and the rate of employed male become 53.2 percent in service sector in 2017. When the distribution of employed female in sectors in 2017 is analyzed, it can be seen that the sectors of service and agriculture are followed by industrial and constructional sectors for employment, and when the distribution of employed male in sectors is analyzed, it can be seen that the service sector is followed by industrial, agricultural and constructional sectors for employment.

There are differences for male and female in the service sector to the economic activity branches which they are employed. Most of the male and female in the service sector are employed in the activities of whole-sale and retail trade in 2017. However, while these activities are followed by the activities of education, human health and social works respectively in female's rates, in the male's rates, these are followed by the activities of public administration, defense, businesses of accommodation and food services respectively.

There are differences between the distribution of employed male and female to the extent of their occupational fields in 2017. Most of the female are employed in elementary occupations in 2017, while most of the male are employed as service man or salesman.

The unregistered employment rates differ to the extent of gender. The unregistered employment rate of females is quite higher than the rate of males between the years of 2000-2017. Although the unregistered employment rates of female and male decreased from 2000 to nowadays, the number shows that the unregistered employment is still high. The unregistered employment rates to the extent of gender differs between agricultural sector and non-agricultural sectors. Especially in the agricultural sector, the unregistered employment rates of female and male are quite high. Moreover, the unregistered employment rates of female are quite higher than the rates of male. Except some years, the unregistered employment rates of female are still higher than the rates of male in the non-agricultural sectors.

There are differences between the labor force participation rates of male and female to their educational status. The labor force participation rate of female is lesser than male in all educational levels.

There are differences among the reasons of males and females who is not participating in labor force, and who is not in labor force. While the female's, who are not in labor force, paramount reason to not participate in labor force is because they are busy with chores, being retired is the most important reason for the male who are not in labor force.

References

Aydın, Fatma Fehime, Erdem, Ekrem (2014), "The Effect of Women's Employment on Competitiveness and Economic Growth: A Comparison of Turkey and The Most Competitive Countries", **Erciyes Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi**, (44): 59-71.

Er, Şebnem (2012), "Women Indicators of Economic Growth: A Panel Data Approach", **The Economic Research Guardian**, 2(1): 27-42.

Günsoy, Güler, Özsoy, Ceyda (2012), "Türkiye'de Kadın İşgücü, Eğitim ve Büyüme İlişkisinin VAR Analizi", **Finans Politik&Ekonomik Yorumlar**, 49(568): 21-40.

Kasa, Hicran, Alptekin, Volkan (2015), "Türkiye'de Kadın İşgücünün Büyümeye Etkisi", **Selçuk Üniversitesi Sosyal Bilimler Meslek Yüksekokulu Dergisi**, 18(1): 1-24.

Korkmaz, Murat, Dilbaz Alacahan, Nur (2013), "Türkiye'de Formel Piyasaya Yönelmede Kadın İşgücü Arzı ve GSYH Etkileri: Ampirik Bir Çalışma", **International Periodical for the Languages, Literature and History of Turkish or Turkic**, 8/7: 887-900.

Makal, Ahmet (2001), "Türkiye'de 1950-1965 Döneminde Ücretli Kadın Emeğine İlişkin Gelişmeler", **Ankara Üniversitesi SBF Dergisi**, 56(2): 117-155.

OECD, https://stats.oecd.org/viewhtml.aspx?datasetcode=LFS_SEXAGE_I_R&lang=en# (20.07.2018)

Özer, Mustafa, Biçerli, Kemal (2003), "Türkiye'de Kadın İşgücünün Panel Veri Analizi", **Anadolu Üniversitesi Sosyal Bilimler Dergisi**, 3(1): 55-86.

Serel, Hicran, Özdemir, Burçin Sinem (2017), "Türkiye'de Kadın İstihdamı ve Ekonomik Büyüme İlişkisi", **Yönetim ve Ekonomi Araştırmaları Dergisi**, 15(3): 132-148.

Tansel, Aysıt (2002), "Economic Development and Female Labor Force Participation in Turkey: Time-Series Evidence and Cross-Province Estimates", **ERC Working Paper in Economics**, 01/05: 1-37.

TURKSTAT, Labour Force Statistics, Labour force status by non-institutional population, years and sex.

TURKSTAT, Labour Force Statistics, Employment status by years and sex.

TURKSTAT, Labour Force Statistics, Economic activity by years and sex.

TURKSTAT, Labour Force Statistics, Labour force status by educutional level.

TURKSTAT, Labour Force Statistics, Reasons of not being in labour force by years and sex.

TURKSTAT, Labour Force Statistics, Occupation by years and sex.

TURKSTAT, Labour Force Statistics, Employment status of persons who are not registered to any social security institution due to main job by years and sex.

PART V.
CHAP 3.
THE EVALUATION OF FEMALE COOPERATIVES IN TERMS OF THE DEVELOPMENT OF FEMALE ENTREPRENEURSHIP

*Esra ÇIKMAZ**

Introduction

Females are formed a driving force to uncover a not evaluated potential in terms of entrepreneurship. The female entrepreneurship is an important field for establishing employment. Therefore, several studies have been made in literature about female entrepreneurship. These studies have an importance for the development of female entrepreneurship. However, is the thought that entrepreneur has no gender an accepted general view? What's the component that differentiate the term of female entrepreneurship from the term of general entrepreneurship?

Since 1980s, the female entrepreneurship became a field of interest of different disciplines around the world. The studies about the field of female entrepreneurship increased in Turkey as well in recent years. Since females are seen as an important actor to develop local economy by governments, this is an important factor for especially encourages female into entrepreneurship. At this stage, it is important that female are brought together under the same roof of co-operatives in order to earn their labor into economy.

Cooperatives are organizations that are governed democratically and provide responsibility, equality, will and solidarity to themselves. Cooperatives place persons to the centre of its activities and makes it possible for partners to determine how to reach their economic, social and cultural goals through democratic decision-making (Özdemir and Yılmaz, 2010). For these reasons, it is aimed in this chapter to examine what the cooperatives of female can achieve for females in terms of entrepreneurship and what can be done in terms of the country development with this way.

* Asst. Prof., University of Gaziantep, esracikmaz@gantep.edu.tr

The aim of this study is both to evaluate female cooperatives in terms of development of female entrepreneurship, solving poverty and increasing employment, and to offer suggestions for the contribution of cooperatives to female entrepreneurship.

1. The Term of Cooperation

As an economic partnership form generally, cooperation is a shaped organization which is a suitable model for persons who want to reach similar targets. At this point, cooperatives are evaluated as foundations which contribute economy with executing important missions such as the production and presentation of goods and services, increasing investments and capital. Nevertheless, cooperatives are known as foundations which contribute to social and economic needs around the world. Cooperatives emerged in the end of 19th century. The development and change of industrial revolution paved the way for the creation of cooperatives (Yazıcı, 2012).

Cooperatives are located in wide range from small businesses to large businesses nowadays. Because an economic crisis started in 1980s and the rate of unemployment increased, this caused the research of new solutions in society. Since privatizations and public sector narrowed and these could not find a solution for raised social problems and private sector approached social problems as a commercial purpose intrinsically, new social and political approach is brought to the agenda which is called as social economy/third system or third sector At this point, cooperatives are placed in third sector. Third sector which includes cooperatives take on important and new tasks nowadays. Moreover, public institutions and organizations subsidize cooperatives in international practices. (Gülçubuk, 2012).

It is accepted that the first application of cooperatives in Turkey started with homeland funds (similar structure to agricultural credit cooperatives) which established by the state in 1863. However, major developments in cooperation happened in the republican era of Turkey. One of the biggest opportunity for national cooperation was perhaps the founder of republic, Mustafa Kemal Ataturk, realized the potential of cooperation and its contribution to economy. From 1920 to his death, Ataturk played a part in cooperative movement in Turkey. He tried to raise awareness of public with including cooperations in his speeches of the places where he went. Moreover, Ataturk became a protector and sponsor of cooperation as a cooperative partner. The judicial regulations of cooperatives were materialized by Ataturk between the years of 1920-1938. On the other hand, cooperation had a immobile time from 1938 to 1960 which was the planned economy period. One of the most important developments after 1960 was undoubtedly that cooperation included in constitution. “State takes measures for the development of cooperation” in the 51th section of 1961 constitution made state more active and responsible for the development of cooperation (www.koop.gtb.gov.tr, 2017).

2. Female Cooperatives

The increase of unemployment and poverty and the impact of these conditions on female put forward the organizational structure nowadays. Being organized is generally important for the evaluation of female labor in response to international forces. Female cooperatives are highly important for the combat of unemployment and poverty. Cooperatives are important economic development tools in the way of the solution of poverty and the employment increase in the world. Especially females, who affected from poverty and unemployment mostly, try to overcome this problem with female cooperatives. Public institutions and organizations, non-governmental organizations and international multilateral agencies display a tendency to develop female entrepreneurship. This development is evaluated in Turkey as a result of increasing interest oriented to female entrepreneurship pursuant to develop female participation into economic activities (Ecevit, 2000). The reflections of female activities in communal and institutional level are seen through the increase of this development about female entrepreneurship. Both non-governmental organizations and public institutions, even every institution nearly seek solutions about the problems of female. The increase of female entrepreneurs in today will alter tomorrow in a more productive manner.

It is very important for female to come together in the cooperatives which they establish as much as economically or socially. Females have an important role to sustain the poor household economies of rural areas almost every region in the world. However, this important role of females can be seen as invisible by both society and themselves. Organizations under the leadership of females not only extinguish the invisibility of female labor but also cause females to strenghten themselves in societies (Gümüşoğlu, 2012).

Some several studies are made between the relationship of several projects of some institutions and organizations of countries like India, Yugoslavia, Iran, Nigeria and Thailand and female cooperatives. In these studies, females narrate about how they gain by sharing their cooperative experiences. Hence, it can be said that making these studies in the world contribute the development of female cooperatives.

As it it seen in table 1, the sum of 93 female cooperatives, which spread around the every side of Turkey, are referred. The numbers of these cooperatives increase day by day. While the numbers of female cooperatives were 36 in 2005, it tripled in a study conducted. Female cooperatives are founded usually as business cooperatives. Home-based workers are preferred to organize themselves in the form of craft cooperatives (Özdemir, 2010).

Table 1. Female Cooperatives in Turkey

The Kinds of Female Cooperatives	**The Numbers of Cooperatives**	**The Cities of Cooperatives**
Business Cooperatives	80	Adana, Ağrı, Adıyaman, Ankara, Aydın, Balıkesir, Bursa, Bitlis, Çanakkale, Diyarbakır, Düzce, Erzincan, Eskişehir, Gaziantep, Hatay, İstanbul, İzmir, Kocaeli, Kayseri, Konya, Manisa, Muğla, Mardin, Nevşehir, Sakarya, Sivas, Tekirdağ, Tokat, Şanlıurfa, Van
Craft Cooperatives	**4**	Ankara, Balıkesir, İzmir, İstanbul
Production and Marketing Cooperatives	**2**	Çanakkale, Samsun
Consumer Cooperatives	**4**	Konya, Osmaniye, Çorum, Mersin
Publishing Cooperatives	**1**	İstanbul

Resource: Ministry of Customs and Trade, 2017.

3. Female Entrepreneurship In Turkey

The entrepreneurship activities of females in Turkey are based on "the female initiatives of setting up their own business" which developed to solve the problem of household's diminishing returns. Since females, who has no adequate education, skill and experience in human capital, have a very poor chance of finding a job, this led female to set up their own businesses necessarily. Turkish females started to operate in market especially in 1990s. Thanks to females who go towards to education, the educational level of females increased. When the educational levels of females and their economic independence increased, the opportunities of their children in health, nutrition and education increased as well. Therefore, females want to join in economic development actively. It should be underlined that the females who gained their economic independence play a crucial role for economic development in Turkey (Çakınberk, 2011: 74).

The governments of developed/developing countries pay special attention for encouragement of entrepreneurship in recent years. This became widespread very recently in the world and it appears that women and disabled people, who are seen as privileged groups in society, are encouraged to establish their own businesses and to be entrepreneurs (Çakınberk, 2011: 291).

4. The Factors Whıch Support The Development Of Female Entrepreneurship

Increasing the welfare of society by adapting to technological progress in the world is directly related to supporting the entrepreneurship of females. From this point of view, especially creating several opportunities and sources for female entrepreneurs, trying to improve the spirit of entrepreneurship for females, and supporting females materially and morally by some institutions and organizations are important steps to subsidize female entrepreneurship (Çıkmaz, 2017).

Nowadays, providing assistance for females, whose participation in business life is inadequate and their knowledge, skills and abilities cannot be used well in economic life, to participate in business life to a large extent and endeavoring females to take a part in economic life actively became a strategic necessities for emerging economies. Many incentive policies have been developed in Turkey for increasing female participation in economy. The factors, which ensure the development of female entrepreneurship, are institutional factors and social factors (Yelkikalan, 2006). It can be said that the activities of public institutions, non-governmental organizations and multilateral agencies increased to develop female entrepreneurship in Turkey starting from 1990s. These activities, which oriented to development, provide females to participate in economic activities in Turkey. The development of entrepreneurship among females is seen as a solution for increasing female participation in production and getting their own economic independence by gaining their own incomes. For the participation of females in economy actively and the development of female entrepreneurship, to support females to set up their own businesses is very important Çıkmaz, 2017).

The social factors, which contribute the development of female entrepreneurship, can be family, environment and education-experiment. Family reflects its own values to child, who is a part of family, firstly. The experiences of child, who obtained from his/her mother and father, leave traces in his/her subconsiousness. Therefore, both economic and social skills are gained from family environment.

International researches indicate that while the networks of female entrepreneurs consist of the triangle of family, work and social life, few females are in the social networks of males but female entrepreneurs give a place to more males in their networks. Researchers argue that it is difficult for females to get in established networks and females are alienated in formal social networks. For these reasons, females usually establish non-governmental organizations which consisted with females and they aimed to get morale and motivation from these organizations according to researchers. Hence, one of the important factors for the development of female entrepreneurship is environment and it is consist of society, which females are in it, and social networks, which females are in communication (Çıkmaz, 2017).

Entrepreneurship education is given with the successful studies of many non-governmental organizations together with universities. Especially, together with universities, entrepreneurship education is given the successful studies of many non-governmental organizations within the entrepreneurship support of small and medium industry development organization (KOSGEB) (Çıkmaz, 2017). One of the most important assistance for the development of female entrepreneurship is education. Several programs and policies which executed for the increase of female educational level in Turkey nowadays support female participation in business life. Hence, females, who enhanced her educational level and her experience for participating in labor force, are increased the success of future female entrepreneurs. It has been thought that when female entrepreneur is successful, her performance will enhance either.

Conclusion

Females struggle with difficulties like the inadequacy of knowledge and experience, and the limited access to education and capital opportunities for their participation in economic activities. The position of state towards cooperatives and the view of bureaucracy, which authorized to represent the state, on these organizations are very important especially. Because female cooperatives contain both production and business, they provide sustainability and females can find the opportunities of work, producing and earning money in these organizations. These organizations create optimum ambiance for females who has no opportunity to work in another job. However, female cooperatives experience financial, organizational and psychological problems. Besides all these, female cooperatives have to deal with the problems like the inadequacy of the opportunities of own funds and finance, the deficiency of female cooperative awareness, insufficient support from the state, the reflection of general problems of cooperatives, the negative attitude of government executives and lack of organizational motivation. Globally established female cooperatives need to be interrelated and need to be in solidarity in order to be successful. Therefore, females can utilize their basic skills in entrepreneurship through female cooperatives. When the progress of female entrepreneurship and female cooperatives in Turkey is observed, it is seen that they display development in parallel after 1990s. This condition demonstrates that females are in search of business life and they need a planned support (Özdemir ve Yılmaz, 2010).

In order to gain a seat in economic and social life, female cooperatives are important for female entrepreneurs. Thus, they can contribute to the economic and social development of the country and sustainable development can be actualized. Cooperatives play an important role for the needs of female who struggle to exist in economic life. Cooperatives are organizations which ensure the development of life standards with solidarity and cooperation (Özdemir et all, 2015). In addition, females gain self-confidence and improve their economic, cultural and social conditions within cooperatives. In order to train and empower female entrepreneurs, cooperatives offer several opportunities (training and consultancy services, finance and bank supports) for females (Çıkmaz, 2017). The confronted problems of females in entrepreneurship can be solved with creating a habitat for females who can be happy and embraced in there. The support of government and several organizations for the establishment of new female cooperatives should be considered in terms of the contribution of employment. Therefore, female cooperatives should be supported for discovering potential talents and improving the conditions of female entrepreneurs who have different problems.

References

Çakınberk, A. (2011). "İş'te Kadın Olmak" (1.Baskı). Ankara: Nobel Yayıncılık

Çıkmaz, E. (2017). "Kadın Girişimciliğin Geliştirilmesinde Kamu Kurum ve Kuruluşların Destekleri ile Destek Sağlama Sürecinde Karşılaşılan Sorunlar: Gaziantep İlinde Bir Uygulama". Yayımlanmış Doktora Tezi, Hasan Kalyoncu Üniversitesi Sosyal Bilimler Enstitüsü, Gaziantep.

Ecevit, Y. (2000). "Çalışma Yaşamında Kadın Emeğinin Kullanımı ve Kadın Erkek Eşitliği", Kadın Erkek Eşitliğine Doğru Yürüyüş: Eğitim, Çalışma Yaşamı ve Siyaset, TÜSİAD Yayınları, İstanbul.

Gıda, Tarım ve Hayvancılık Bakanlığı, (2018). https://www.tarim.gov.tr.

Gülçubuk, B. (2011). "Kırsal Alanda Kooperatif Örgütlenmesi ve Kadın' Konulu Toplantıdaki Sunum", (12.12.2012), Ankara.

Gümrük ve Ticaret Bakanlığı Dünyada Başarılı Kooperatifçilik Uygulamaları Kitapçığı, (2017).

Gümüşoğlu, F.(2012). *Kadınların Toplumsal Alanda Güçlenmesine Bir Örnek: "Yağlar Köyü Tarımsal Kalkınma Kooperatifi"* Kadın Araştırmaları Dergisi, Cilt:1, Sayı:10, s.39-60.

Özdemir, A, A. (2010). "Potansiyel Girişimci Olan Kadınların Motivasyon Faktörleri Ve Eskişehir'de Bir Araştırma". Ege Akademik Bakış, 10(1), 117-139.

Özdemir, G. ve Yılmaz, E. (2010). "Kadın Girişimciliği ve Kooperatifler", Uluslararası 2. Trakya Bölgesi Kalkınmak Girişimcilik. Sempozyumu 1-2 Ekim 2010 Bildiri Kitabı.

Özdemir, G., Yılmaz, ve Ülker, F. (2015). "Kadının Ekonomiye Kazandırılmasında Kadın Kooperatiflerinin Katkısı", Türkiye'de ve Dünyada Kadın Araştırmaları.(This book is published thanks to the support of the Çukurova University's Scientific Research Project (CU BAP) under the contract SBT-2015-387).

Ticaret Bakanlığı Kooperatifçilik Genel Müdürlüğü, (2018). http://www.koop.gtb.gov.tr.

Yazıcı, H. (2012). "Kooperatifçilik ve Kadın Kooperatifleri". (http://koop.gtb.gov.tr).

Yelkikalan, N. (2006). "Başarılı Girişimcilikte Cinsiyetin Rolü: Kadın ve Girişimciler", Girişimcilik ve Kalkınma Dergisi, Journal of Entrepreneurship and Development, Cilt 1, Sayı.1,Vol.1,No.1,-Haziran,2006, http://girisim.comu.edu.tr/dergiall/eskisyilr/1in1/yelkikalan.pdf., Erişim: 01.04.2009. s.45-54.

ECONOMIC ISSUES IN RETROSPECT AND PROSPECT

Economics is considered as the Quenn of all social sciences. The reason of this is the power of economics in explaining social issues and the major role of the economics in the relations between other disciplines. Economics necessarily focused on policy, rather than discovery of fundamentals. This focus generate real problems in economics. The practical policy aspect of economics may be important but it should not be its sole function. Economic issues should be evaluated not only in terms of policy but also in more holistic and different ways. And this book serials "Economic Issues in Retsrospect and Prospect" is intended to achieve such an approach. It adresses key issues in political economy ranging from micro and macro economics, to monetary economics, gender economics, development economics, health economics etc. Bringing together successful academicians in the field, this book aims to create new discussion lines and topics in economics.

IJOPEC PUBLICATION
London ijopec.co.uk Istanbul

ISBN 978-1-912503-45-2
9 781912 503452

ECONOMIC ISSUES IN RETROSPECT AND PROSPECT

Jose R. Pires Manso
Ahmet Arif Eren

IJOPEC PUBLICATION
London ijopec.co.uk Istanbul

VOL I