THE THEORETICAL FRAMEWORK OF THE ECONOMIC FLUCTUATION IN TURKEY

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ABSTRACT

It is observed that the economic fluctuations have been shaped according to the variations of economic activities through the historical development of global economy. In the middle of the 18th century, with the invention of steam engine in England and with the invention of casting iron by smelting coke, there were important developments in industrial field. In 19th century in which the capital experienced its golden age, industrial capitalism rapidly increased firstly in England and then in USA, Germany and other European countries. In the light of these developments, in this study it is aimed to have a broader look to the conjuncture and also to state all the fluctuations in local, national and international levels that the economy faced in short and long run. Since the conjuncture is specific to industry and trade, the features of agriculture sector is different. However, economic fluctuations are usually witnessed in industrialized countries. Each of the economic fluctuation has the peculiarities specific to the economic conditions they are in.

When the issue is assessed from the point of view of Turkey, the main reasons of the instability in Turkish economy is foreign dependency and inflation. The policies aiming to struggle against inflation have established the basis of the prepared stability programmes. However depending on the quality of the prepared programmes, the issue of ensuring price stability has become an important problem. In this study, the processes of formation of the economic fluctuations and the measures to be taken for these have been inquired.

Keywords: Economic fluctuations, Economic Policies, Turkey Economy

1. Introduction

Cyclical aims at looking through wide perspective and in addition expressing all the fluctuations in the form of local, national and international which economy faced with in the short and long term. As cyclical is mainly peculiar to industry and trade sectors, agriculture sector have different characteristics. However, economic fluctuations are seen mostly in industrialized countries. While each of the economic fluctuation has characteristics peculiar to economic situations, economic fluctuations can be thought as overproduction, generalization, periodicness, economic system and crisis and industrialization and crisis (Aklin, 1987:257).

Especially with the industrial revolution, western countries have experienced economic fluctuations every 8-10 years and it is seen that welfare, wealthiness and extravagance eras are followed by unemployment, poverty and beggary eras (Dinler, 1995:46). Nevertheless, economic fluctuations go parallel with the industrialization activities. If there are economic fluctuations in an economy, many sectors gain importance. These are industry, service, and agriculture sectors. While production and investment in industry and service sectors are generally related to demands, natural circumstances become prominent in agricultural sector and market loses effect (Çapraz, 2001;51).

As a result of the biggest crisis occurred in capitalism in 19th century, the most important change was pointed out as the steps taken in the interaction to economy by states. Nevertheless, many industrialized countries took some prevention in the direction of protectionism. Thus, they tried to maintain the general circumstances which sustain the revival of capital stock and re-production. Increased capital accumulation changed the western societies positively in terms of economy and social. Although there were economic fluctuations in these economies, they increased constantly in the long-term period (Ryan, 1983;97).

The differences in the activities of economic fluctuations, improvement level, industrialization degree, economic structure and international relations in the western societies caused differences in the time and intensity of fluctuations in every country. When looked at the history of economic fluctuations, it is considered different in different centuries. Nevertheless, making structural changes in economic policies like improvements made during 19th century, maintaining economic enlargement, having low rate of inflation and prevention of unemployment became a current issue (Dale, 1991;533). Nevertheless in 20th century before the collapse of capital market, it was understood that they predicted that there would be an excessive speculation in purchasing of share certificates in USA and in order to eliminate it, it decreased its active portfolio thus there would be an economic fluctuation. At the end of this, it was understood that the effect of this economic fluctuation was relatively high as bankruptcy of many banks was the indication of collapse of American economy and this collapse spread to the world in waves (David, 1983;958).

Economists knew the reasons of cyclical and crisis and the amelioration solutions after economic fluctuations occurred in 1929. Thus they could elude from economic fluctuations in a short time as they took the control when they emerged (Jasques, 1977;168).

2. Defınıtıon of the economıc fluctuatıon

Many research related to economic life revealed that economic level of activity doesn't improve constantly by protecting a definite level; on the contrary it consists of fluctuations. Accordingly, there were rises and falls in terms of physical and values like national income, industrial, agricultural production and investment in basic macro size. According to this rises and falls which repeated in time in the economical level of activity is named as economic fluctuation. These economic fluctuations spread to whole economy from the sector where it emerged in waves. In the crisis process which effect not only industrial sector but also trade sector, pessimistic expectations that lead social, psychological education and behavior cause to spread of fluctuation fast. For this reason, the necessity of struggle against fluctuations occurred in time is emerged. Variable economic policy tools are recommended in order to struggle against these fluctuations and to use existed capital, labor, and natural resources efficiently in an economy.

The most common definition about the definitions of economic fluctuations and their emergence mechanisms was made by Wesly Mitchell. This began to be seen in capitalist countries by following the private enterprise and improvement of market economy. According to Wesley recession, crisis, revival and expansion that emerge simultaneously and consecutive in common economic activity level in capitalist economies are named as economic fluctuation (Woitek, 1998;33).

Fluctuation concept is a problem or process and related with many elements which composed of economical mean. It can defined generally as the disruption of the supply demand equilibrium of goods and services in economic development process and breaking of mutual relations among all the economical elements (Hanson, 1978;213).

3. HISTORY OF THE ECONOMIC FLUCTUATION

It is seen that economic fluctuations formed according to economical activities in the world economic history. There were great improvements in industry after the invention of steam machine in England in the middle of 18^{th} century and the invention of iron melting method by using coal. Thus, small enterprises which based on manual labor in production were replaced by big factories working with steam power (Michell, 1980;108).

In 19^{th} century which was a golden age for capital, industry capitalism began to increase rapidly in England, USA, Germany and other European countries. While steam ship transportation with the increased use of coal and steam machine in industry which is seen as a revolutionary for the transportation system caused the increase in manufacturing of railways, crisis emerged in America with the speculation of railway stock certificate spread to the international level in a short period. This was thought to be the first crisis of capitalism at international level. In this process there was decline in the levels of production and employment in the countries where crisis emerged.

However, there are economical trends which express different approach for the economic fluctuations. Classics didn’t express economic fluctuations much. They based economic acts upon the some natural acts and believed that the economic fluctuations which could be occurred in economical development process is to be stabilized spontaneously. On the contrary of classics according to Marx, a capitalist economy can’t be stable continuously as economic medium is the entire of the factors which expose to change compulsorily.

Keynes talks about inadequacy of investment while discussing about the economic fluctuations. According to Keynes, the reason of economic fluctuations is that normal savings are larger than investment. This situation causes instability in the consumption goods market. Fluctuations occurred as a result of breakdown in the relations and balances of economic sizes are caused by decreased new investments and low rate of employment. According to Keynes employment should be increased and investments should be enlivened by putting inert production factors in circuit in order to enliven economy. According to him, fluctuation can be prevented by existence of tools that are necessary for the prevention economic fluctuation (Köse, 2004;4).

Economic fluctuations are the severe fluctuations emerged beyond the change border that is acceptable for values or quantities in any good, service, production factor or exchange sector. Economic fluctuations are generally the deviant developments which are emerged in processes from the production of economy to re-production. It is seen that economic events are not always on the same level and every economic development and welfare era emerges with economic devolution and collapse era. Such changes occurred in economic activities are the definite indications of economic fluctuations. Fluctuations occurred in economic life can be sorted into three groups in terms of expenditure; seasonal, accidental and periodical.

4. Reasoning of the economic fluctuation

The idea of reason of emergence of economic fluctuation is global shock were explained extensively until the end of 1970s. However, after 1970, world witnessed a supply shock experienced with petroleum prices which brought about a cyclical crisis. This revealed the fact that fluctuation is not only the result of supply shock but also it can emerge at the end of demand shock.

The most important indications that point out the emergence of economic fluctuations can be summarized as inflation, devolution of balance of trade, decrease in the trade performance and rate of economic growth, increase in money supply and public deficit, and increase in money supply and at the rate of gross international reserves of money supply. The current structure and reasons of economic fluctuations can be explained in the process of historical development. Internal and External factors which cause economic fluctuation should be detected.

- Changes in the expectation of inflation and rate of interest.
- Changes in money supply
- Changes in the exchange rate
- Changes in export and import
- Increase in wages
- Political and economic fluctuations
- Increase in population and migration.

Conclusıons

Today Turkey is the country where most rapid price increase exists. For last two decades, average annual inflation rate is 7%. At times the country has reached double-digit inflation rate due to inequality of German economic measures and not non-preference of inflationary economic policies. Important success can not be achieved even if the times when acute measures are taken.

Inflation is one of the basic reasons of instability in Turkey's economy. Policies related to prevention of inflation are the basic of stability programs that prepared. Sustaining price stability depending on the characteristics of prepared program has become an important problem. One of the issues most discussed in Turkey is the efficiency of money policies implemented by Central bank in sustaining price stability.

Today fluctuation at the level of price mostly appears in the form of inflation. When we look at the recent history, it is understood that while stability dominated in the world between the two world wars was in the form of unemployment, it is in the form of inflation in the post-war period.

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